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ABSTRACT

Ways in which to stimulate an in-depth analysis of school finances are presented. The text is intended for a wide audience and can be utilized as a college-level text or as supplemental material. Nine chapters discuss a variety of topics of interest to public administrators: politics and school finance, including overviews of departments of education, local boards of education, the courts and school finance, vouchers, tuition tax credits, and charter schools; the cost of education, such as mandates, collective bargaining, utilities, special education, and vandalism; paying for education through funding formulas and revenue sources; facilities and the infrastructure problem; budgeting and reporting, including budget development, controlling the budget, and financial accounting and reporting; insurance/risk management and suggestions for purchasing insurance; banking and investing; alternative sources of revenue, such as advanced treasury notes, advertising, energy management, facilities, and foundations; and the training required of school business administrators and the anonymity surrounding the position. Each chapter features a short conclusion that sums up its contents. (Includes a glossary of terms and an index.) (RJM)

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# LET'S TALK SCHOOL BUSINESS

By Edward Meglis, Jr.

Let's Talk School Business

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## About the Author

Edward Meglis, Jr. is currently the Executive Director of the New Jersey Association of School Business Officials (NJASBO). He has held this position for the past 12 years.

Prior to his employment with NJASBO, he was a chief school administrator for 10 years, a school business administrator for five years and a classroom teacher almost six years. During his varied employment tenure he has served as president of both his county superintendents and school business administrator groups as well as serving as chairman for the Affiliate Executive Directors of his national association, the Association of School Business Officials International.

Mr. Meglis holds a Bachelor's Degree from Jersey City State College and a Masters in School Administration from Seton Hall University. He has also taken additional course work at Rowan College, formerly Glassboro State Additionally, he is certified as a Registered School Business Administrator conferred by the Association of School Business Officials International and he holds the designation of Certified Association Executive (CAE) from the American Society of Association Executives. He is also a member of a variety of professional and social organizations.

# Acknowledgements

I would like to thank everyone whose hard work and enthusiasm made this text a reality.

Creating a manuscript is no simple task. It takes a concerted "team effort" to produce.

Without the help and guidance of good friends and colleagues who gave encouragement, technical advice and suggestions on content, formatting and editorial changes, this text would not have come to fruition.

I hope this gives everyone involved the credit and recognition they so richly deserve.

**Proofing and Editing**
Dr. Eugene Keyek
Nicholas Puleio
Dr. Karl Rodabaugh
Bernie Steinfelt
Dr. Ann Timmons

## Dedication

First, I dedicate this work to all those individuals past, present and future who are involved in the profession of school business administration. They are truly a hard-working, dedicated group of individuals who, in most cases, fail to receive the recognition they so richly deserve.

I would also like to recognize all my friends, especially my close friend for more than 30 years, Joseph Reardon. Joe is both friend and family.

Last, and certainly not least, I would be remiss if I didn't recognize my children Doreen, Ed Scott and Cheryl, and especially my wife, Barbara. Regardless of your vocation in life, spousal support, encouragement and advice are necessary to be successful. She is my inspiration, strength and my very "best friend." Without her, success would be meaningless. A line from the hit song by Tina Turner sums up my feelings for her very succinctly, "You're simply the best."

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# Preface

This book was written for a wide variety of audiences with an interest in school business. It can be utilized in numerous ways, either as the main text for a college-level course, as a supplement to a formal text or simply as an additional reference tool for anyone interested in the topic.

The author intends to stimulate an in-depth analysis of the material discussed within this document. Education is "big business," therefore, school finance will always be a topic of discussion. Every educational decision has fiscal implications, so it is imperative that everyone - from those involved in education to the general public - has a basic knowledge of what school business is all about.

As public employees, parents and taxpayers, we need to establish a delicate balance as we provide a quality education for all students while maintaining a high degree of efficiency, fiscal integrity and accountability.

We also must recognize that school business is concerned with a wide spectrum of disciplines. Because of this diversity, I have included sections that cover the most pertinent topics under the umbrella of School Business Administration.

Lately, school business it has become fragile and frustrating, and has consumed an inordinate amount of time and energy of its practitioners. To some, it becomes an obsession, causing individuals to focus on narrow rather than global issues.

One thing is certain, school business is never boring or dull; it is a topic of discussion from the kitchen table to the highest levels of government.

I hope that I have piqued your interest and provided you with the motivation to pursue your goal in the business of education. Good reading and good luck!

Chapter I

# Politics and School Finance

## General Statement

Someone once said that "politics and education do not mix." This is simply not true. We must remember that politicians have two goals in life, to be elected and to be reelected. If we accept the latter premise as being somewhat true, then we can understand why all areas of education, but in particular school finance, attract such a great deal of attention.

Politicians are always eager to receive credit for reducing spending since this usually translates into affirmative votes. Let's remember that no politician wants the ire of the local taxpayer to be vented at the polls. If this occurs, the politician will have a short- lived political career. Politics has had, and always will have, a direct correlation with education. It is a reality that we must accept and begin using to our advantage.

Who are these "political forces at work?" What is their motivation? How do they make an impact on school finance? Let's begin to dissect these entities and bring the picture, more clearly into focus.

## The Players

**Federal and State Governments** - They promulgate legislation, enact codes, and exert an impact on the financial operations of local school districts. One can validate this observation simply by referring to the host of mandates (to be discussed fully in a subsequent chapter) along with a myriad of other responsibilities placed upon our educational institutions. Financial accounting and reporting, transportation, environmental issues, health and safety issues, maintenance and special education can be cited as just a few examples.

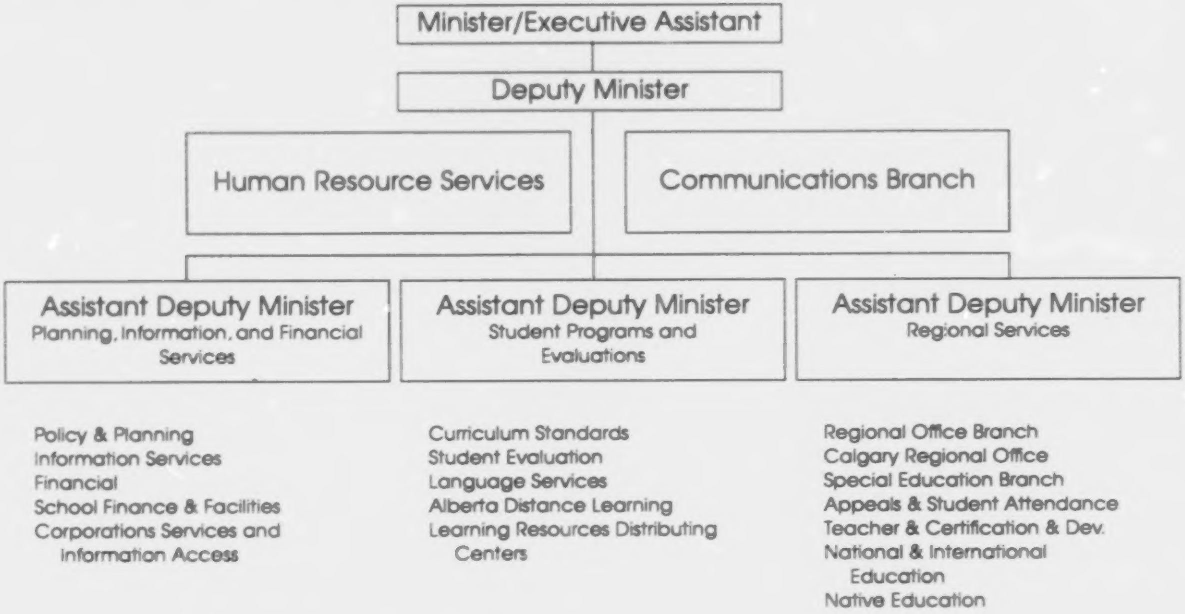
**Departments of Education** - All states and provinces have a department or ministry of education that usually falls under the auspices of the respective state or provincial board of education. The commissioner or minister of education or chief school officer is generally a political appointee and works in conjunction with the respective state or provincial board of education. The board of education develops rules and regulations that affect the educational and fiscal operations of local school districts.

The exhibits that follow will give you a good overview of a variety of these bureaucracies. For comparative purposes, I have included the Province of Alberta, The United States Department of Education and Florida Department of Education. Although we are talking about different levels of jurisdiction, the organizational charts are similar.

**Local Boards of Education** - While the election of school board members is meant to be nonpartisan and thus not tied to any other political election, the process has become political in nature. School board members (or the board of trustees as board members are referred to in Canada) are elected officials in the majority of cases and are answerable to local voters. Most terms of office are for three years and most boards are composed of seven to nine members. In the United States, the majority of board members serve voluntarily without compensation. Our Canadian neighbors, when serving as trustees, can receive compensation on a per diem basis or may draw a stipend of $15,000 or more if they serve in a large city school district. Last, many board members or trustees seek election based upon campaign promises, usually involving a specific educational or financial

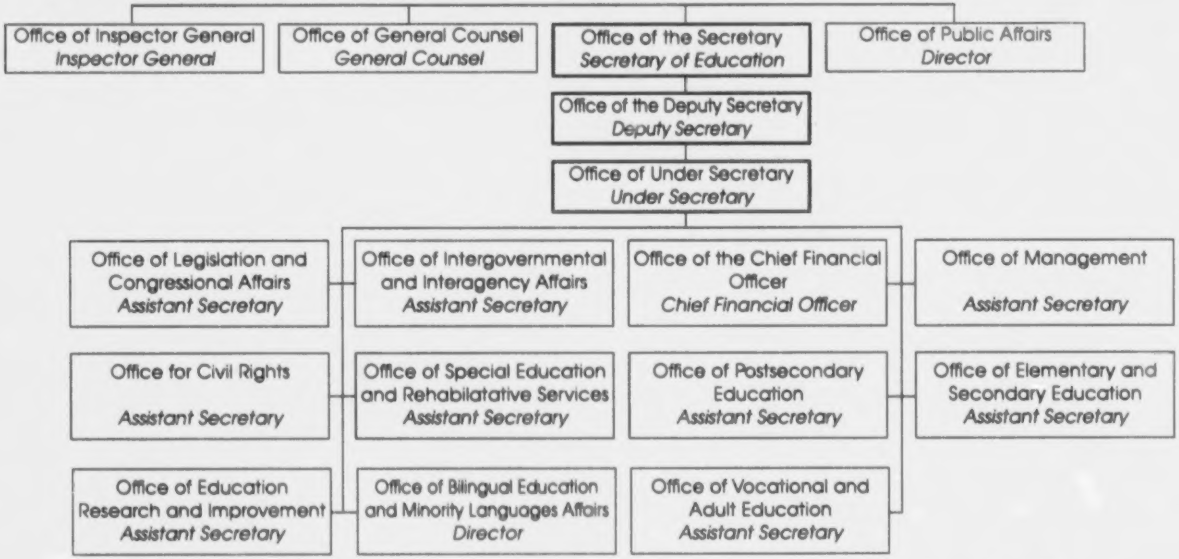
## Exhibit 1

### Alberta Education Organizational Chart


Minister/Executive Assistant
Deputy Minister
Human Resource Services
Communications Branch
Assistant Deputy Minister
Planning, Information, and Financial Services
Assistant Deputy Minister
Student Programs and Evaluations
Assistant Deputy Minister
Regional Services
Policy & Planning
Information Services
Financial
School Finance & Facilities
Corporations Services and Information Access
Curriculum Standards
Student Evaluation
Language Services
Alberta Distance Learning
Learning Resources Distributing Centers
Regional Office Branch
Calgary Regional Office
Special Education Branch
Appeals & Student Attendance
Teacher & Certification & Dev.
National & International Education
Native Education

# Exhibit 2

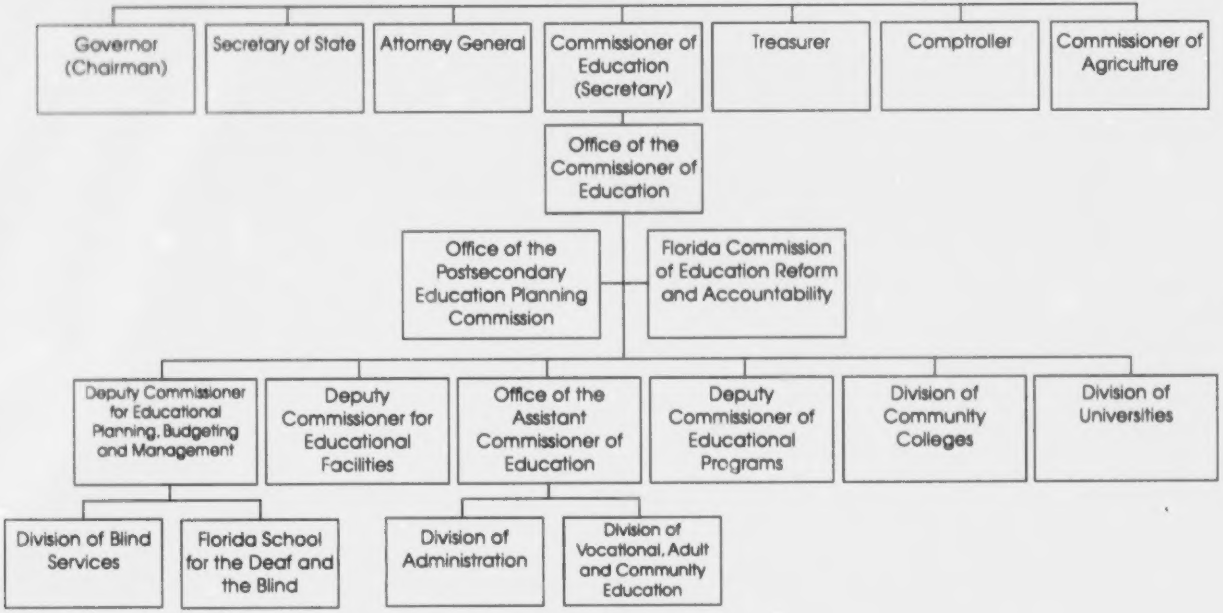
## U.S. Department of Education Organizational Chart


Office of Inspector General
*Inspector General*
Office of General Counsel
*General Counsel*
Office of the Secretary
*Secretary of Education*
Office of Public Affairs
*Director*
Office of the Deputy Secretary
*Deputy Secretary*
Office of Under Secretary
*Under Secretary*
Office of Legislation and Congressional Affairs
*Assistant Secretary*
Office of Intergovernmental and Interagency Affairs
*Assistant Secretary*
Office of the Chief Financial Officer
*Chief Financial Officer*
Office of Management
*Assistant Secretary*
Office for Civil Rights
*Assistant Secretary*
Office of Special Education and Rehabilitative Services
*Assistant Secretary*
Office of Postsecondary Education
*Assistant Secretary*
Office of Elementary and Secondary Education
*Assistant Secretary*
Office of Education Research and Improvement
*Assistant Secretary*
Office of Bilingual Education and Minority Languages Affairs
*Director*
Office of Vocational and Adult Education
*Assistant Secretary*

September 1994

## Exhibit 3

## Florida Department of Education Organizational Chart


Governor (Chairman)
Secretary of State
Attorney General
Commissioner of Education (Secretary)
Treasurer
Comptroller
Commissioner of Agriculture
Office of the Commissioner of Education
Office of the Postsecondary Education Planning Commission
Florida Commission of Education Reform and Accountability
Deputy Commissioner for Educational Planning, Budgeting and Management
Deputy Commissioner for Educational Facilities
Office of the Assistant Commissioner of Education
Deputy Commissioner of Educational Programs
Division of Community Colleges
Division of Universities
Division of Blind Services
Florida School for the Deaf and the Blind
Division of Administration
Division of Vocational, Adult and Community Education

issue.

In some instances, board members are appointed rather than elected. Under these circumstances, the process has a tendency to become even more politicized because the appointee has allegiance to a specific political party or individual. Political patronage should not be the dominant reason for seeking appointment to a board of education. Improving the educational opportunities for children should always be the primary motivation. Politics only cloud the issue.

**The Courts**- As we are aware, our society has become highly litigious and education is no exception. At every level, whether federal or state, the judicial system has played an important role in framing a multitude of educational issues, especially school finance.

In the last three decades, almost every state has faced education litigation, usually involving alleged funding inequities. Specific examples of the impact of the courts follow in the next section of this chapter.

**Local Citizens** - Today, this group probably wields more political power than any of the previously mentioned groups. In many states, voters not only elect board members, they also affect the formulation and adoption of school budgets. Individually and collectively, the voice of the citizenry is becoming a powerful force in school finance.

## The Courts and School Finance

Indignation, frustration and discrimination will usually lead to litigation. At the last count, close to 40 states currently or previously have been involved in school finance litigation. These cases usually prove cumbersome and costly; and in many instances they can be characterized as an exercise in futility.

Why has litigation played such an important role in framing school funding issues? School finance conjures up strong emotional feelings because it deals with two fundamental aspects of our society: the education of our children and the payment of taxes.

A closer review of the specific litigation that follows is a good indicator of the emotional issues previously mentioned.

*McInnis v. Ogilvie* (1969)

The plaintiffs in this case were from a district in Illinois that was considered property poor. The plaintiffs asked for relief from the court in the form of the reallocation of the disbursement of funds. The disbursement was based proportionately on student needs. The plaintiff's request was denied on the basis of objectivity. The courts felt that defining "needs" could not be accomplished universally.

*Rodriguez v. San Antonio* (1973)

This case also dealt with students from a property poor school district who challenged the school funding system. The United States Supreme Court ruled against the plaintiffs and overturned a previous Texas court ruling on two grounds. Education was not a fundamental right, and the state could distribute funds accordingly if they simply had a rationale for such distribution. The court was also not convinced that alleged spending disparities were damaging to students.

*Papasan v. Allain* (1986)

This case dealt with the redistribution of local property tax revenues to achieve spending parity. The U.S. Supreme Court did not mention equal educational opportunity, evidently assuming that spending equal dollars on every student will have equal results.

*Holeson v. Hansen* (1967)

Filed against the Washington, D.C. school system, this case dealt with alleged racial discrimination in the distribution of school services. The eventual outcome of this litigation was the promulgation of comparability regulations by the United States Office of Education. In essence, school districts were required to distribute monetary resources equally to remain eligible for the receipt of federal funds.

*Robinson v. Cahill* (1973)

This was the first landmark case from the state of New Jersey. The New Jersey Supreme Court declared that New Jersey's method for distributing school funds was in violation of the state constitution. This was based on the premise that funds were not distributed so as to accomplish the "thorough and efficient" definition of education as required by the state constitution. Various funding formulas were implemented after this decision, none of which seemed to satisfy the mandate of the court, which was to fully fund education. This occurred only twice during a 20-year time frame. Ultimately, New Jersey's failure to institute a funding formula that resulted in parity led to future litigation. [1]

*Abbot v. Burke* (1982)

Essentially, this case was brought on behalf of the school children located in New Jersey's property poor districts. Thirty of these districts were identified and categorized as "special need districts." In rendering their decision, the New Jersey Supreme Court ruled that the Quality Education Act (a funding formula developed in 1990) was unconstitutional. The courts further ruled that education was a state responsibility, and that the state must rectify any funding inequities. It is estimated that at least $400 million dollars is necessary to bring the 28 "special needs" districts up to parity. It should be noted that this figure deals only with programs considered under the category of regular education.

The New Jersey Supreme Court addressed two additional items, accountability and categorical aid. The court stated that accountability is necessary to track how and where funds are expended. The court also found that students in "special needs" districts have supplemental requirements that are not included in regular educational costs. These supplemental costs are referred to as categorical aids. Examples include "at-risk" students and those children identified as needing services under the headings of compensatory or special education. In the *Abbot v. Burke* case, the New Jersey Supreme Court declared that additional funds are necessary to adequately address these services, but failed to specify any recommended formula or dollar amounts. Appeals have been filed and the courts have given the state until December 31, 1996, to resolve the issue. In May 1997, the state Supreme Court ruled the new funding formula unconstitutional for the "special needs" districts. The court also ordered that an additional $246.1 million of state aid be dispensed to these districts.

### What's Next

In the majority of court decisions, the judiciary came to the conclusion that disparity in the allocation of resources exists almost universally. Most of the decisions failed to address the total amount of funds necessary, and the courts deferred that task to the legislative and executive branches of government.

This means that we are playing revenue "ping pong." No one wants to take the responsibility for making a decision. The courts point to local governments and strongly suggest that legislators are responsible for making these decisions. Conversely, legislators use stalling tactics with hopes that the courts will get them off the hook. Maybe this sounds a bit unfair, but if you examined the circumstances surrounding funding formulas within your own geographic region, you would find evidence to support the accuracy of the statement. Keep in mind that legislators are extremely sensitive when it comes to making funding decisions that could have an adverse effect on their constituencies either by decreasing educational opportunities or increasing taxes.

### The Changing Image of Public Education

Politics, in the eighties and nineties has shifted the focus on public education from educational to funding issues. This change has contributed to the growing negative sentiment about public education. Governors, legislators and the taxpaying public are constantly seeking ways to reduce education spending and to decrease reliance on property taxes. Property taxes are the primary revenue source in a majority of states for funding education.

All these factors have caused people to examine different approaches to how public schools might be operated. The following options have been implemented in a variety of states throughout the country.

## Regionalization/Consolidation

Much discussion has centered around either the regionalization, consolidation or unification of school districts. This idea is not unique and has been discussed and debated during the past four decades, but considerable opposition has arisen to the concept.

Why has this method of reorganizing school systems met with so much resistance? First, it is a "political football," one that causes legislators a great deal of concern. Most people who identify with a school district — including administrators, staff, parents and students within those districts considering some form of consolidation — want a voice in the operation of the district.

Second, financial inducement (at least those currently proposed) usually is not sufficient to entice districts to regionalize or consolidate on a voluntary basis. The rights of ownership still outweigh any financial incentives.

Third, it is difficult to determine objectively the cost savings and educational advantages of districts that have regionalized or consolidated. Is smaller better than larger? Have dollars been saved? Are students receiving a better education? These are the major questions that have not been answered.

Some argue that students receive better and broader program offerings in a larger setting. Others counter that smaller school systems provide greater personalized attention. Some point out that administrative and staff salaries would be decreased if districts regionalized or consolidated. Others point to increased transportation costs and additional sub layers of personnel that may offset any potential savings.

Many arguments, both pro and con, can be made on this highly emotional issue. The debate will linger throughout the nineties and possibly into the next century. Most educators believe that widespread reorganization will occur only after a clear mandate. However, let's remember the American mindset. No one enjoys being forced into making a decision without having the opportunity to give input. Unless sufficient funding incentives accompany any regionalization/consolidation plan, local school districts will be painstakingly slow to embrace this concept.

### Vouchers

Educational vouchers in some shape, manner or form have been around since the mid 1950s. In simplistic terms, the voucher system allocates a specific number of dollars to the parents of students and allows them to send their children to the school of their choice. Some states, including Minnesota and Wisconsin, have voucher programs in existence. These programs have been limited to public school choice and have received mixed reviews. In the majority of states, much of the educational community looks upon vouchers as a "plague" that will eventually destroy public education.

In 1993, a proposed voucher plan for the state of California was defeated. In New Jersey, a commission was promulgated in 1995 to study the pros and cons of a voucher system. In the latter case, both the Governor and the State Commissioner of Education are supportive of a voucher plan. Conversely, a majority of educational, parental, and other interested organizations, as well as a large number of legislators, are opposed to any voucher program. Why have vouchers met with such resistance? There are numerous reasons:

- The voucher system may pit one public school against another.
- Vouchers may force a migration of students from urban areas if an inter-district program is adopted.
- Vouchers may cause the closing of certain schools

that may be unable to sustain a viable educational program.
- Certain schools may become more segregated, either economically or racially, regardless of how the voucher plan is structured.
- There could be a constitutional problem (arising from the separation of church and state), particularly if non public schools are part of the voucher network.
- Public schools would be in danger of losing financial resources.
- Transportation could become unwieldy and costly, especially if an inter-district approach is utilized.

Proponents of the plan could counter with the following points:
- Competition among schools is healthy and tends to improve and enhance the educational process.
- This is a nation built upon the ideals of freedom and democracy. What better way to exemplify this principle than through school choice?

It is not the author's intent to sway the reader in any one direction. However, in districts that have implemented a voucher system, information pertaining to educational outcomes and financial savings have proven inconclusive.

### Tuition Tax Credits

The Reagan Administration originally proposed tuition tax credits in the 1980s. Families who send their children to private schools would derive a financial benefit by receiving a tax credit on their federal income tax returns for tuition expenses. It should be noted that a tuition tax credit is not a deduction, but rather an offset against any owed federal taxes. Again, arguments can be made for or against this type of incentive. Proponents of the plan could argue that tuition tax credits would assist lower and middle income families by reducing their tax liability.[2]

School districts could also have a choice, and implement a system utilizing tuition tax credits rather than a voucher system. This would eliminate direct funding for nonpublic schools and potentially minimize the argument of "separation of church and state." Opponents could still counter by raising the questions of constitutional legality and of the detrimental effect such a plan would have on public education. Because of the potential volatility of tuition tax credits, proposals to implement the measures have met with little or no success.

### Charter Schools

Charter Schools are not a new phenomenon and currently exist in 19 states. They were implemented in the United Kingdom under the Educational Reform Act of 1988 as Grant Maintained Schools. Charter Schools usually start either because of dissatisfaction with the public school system or due to a desire for political and economic reform. The former was the reason in the United Kingdom. The Conservative Party, in their political power struggle with the Labor Party, needed an issue that would appeal to a broad spectrum of the populace. This is just another way of questioning the adequacy of the public school system. This theme has a familiar ring.

In a presentation by Dr. John Fitz, Senior Lecturer from the University of Wales, Cardiff, results of grant maintained schools are inconclusive. Dr. Fitz says that students in these schools exhibit no substantial increase in student achievement. Furthermore, the schools not only became engaged in "bidding wars," they soon became elitist in their philosophy. School principals became little more than recruiters, and teachers had no voice in the governance of the schools.

This is not to say that the Charter School concept is void of benefits and should not be implemented. By the same token, it is not the panacea that proponents predicted. Charter Schools already have been opened in a variety of locations and will eventually exist in a majority of states and provinces. This is the reality of the political climate that currently exists. Permissive legislation has recently been signed into law in New Jersey, and 13 Charter Schools were scheduled to open in September 1997. Pennsylvania has recently enacted a similar law.

### Magnet Schools

Magnet schools have evolved as a means of permitting school choice without going to the extremes of adopting a tuition tax credit or voucher plan. Usually, this concept has been implemented and contained within the public school sector.

Simply stated, magnet schools concentrate on a specific discipline (e.g. the arts, mathematics and science, etc.) and permit parents to apply for admission for their children. Magnet schools have met with far less resistance and have experienced much more success than any other plan dealing with school choice.

## Conclusion

As indicated in this chapter, the political process has played, and probably always will play, an important role with in public education. It is inevitable that when you are dealing with the expenditure of billions of dollars (over $300 billion in the United States), politicians always will be involved in the decision-making process.

Politicians answer to a constituency, either on a federal, state or local level. A majority of these constituents seem to desire a reduction in educational expenditures. If a politician ignores this constituency, their term of office may be short-lived.

CHAPTER 2

# The Cost of Education

Public education is "big business." Nationwide it costs well over $300 billion dollars, employs more than 1 million individuals, and measures up as our largest public entity. Education is often compared to the private sector because of the large expenditure of funds needed to operate school systems. Expenditures notwithstanding, that is where the similarity with the private sector ends. The latter is concerned with profit and loss. If a problem occurs relating to profitability, the company can institute a variety of procedures in an attempt to correct any deficiencies. These solutions could include downsizing, eliminating a product line or service, selling off an unprofitable division, closing a plant, merging, or, in the worst case scenario, ceasing operations altogether.

The public sector enjoys neither the options nor the flexibility of its for-profit counterpart. The educational community is responsible by law, code or administrative regulations to educate all children under its jurisdiction. Consequently, our public schools have become a microcosm of society, required to react and respond to a host of issues. These topics span academic, environmental, health, safety and moral considerations. For example, we attempt to reduce the dropout rate, institute alternative schools and spend more and more to avoid a greater cost to society at a later date.

The demands placed upon our public schools have intensified while our resources to fund public education continue to diminish. This clash between expectations and the reduction of available funds has caused a dilemma that is becoming more and more problematic. Many of these problems are caused by a lack of understanding of what a school budget entails. Even more important is the failure of the public to recognize the factors that contribute to the rise in educational costs.

Essentially, we can identify five major cost centers over which school officials have little control, yet which require the expenditure of big dollars. These areas include: collective bargaining, federal and state mandates, special education, utilities and other fixed costs, and violence and vandalism. A simple examination of the separate expenditures for each of these areas demonstrates that, in the aggregate, they comprise approximately 90 percent of a local district's budget.

## Collective Bargaining

It should come as no surprise that school district operations are "labor intensive." Even if we exclude fringe benefits, salaries comprise more than 50 percent of any budget. In many states and provinces, the figure is even higher. Add in fringe benefits and the costs escalate even more. What drives these costs? If management and other confidential employees are excluded, the major portion of the salaries is attributable to regular classroom teachers and other instructional personnel (that is, staff and support services for special education).

The driving force behind the sizable "labor" costs was the advent of collective bargaining. These factors, coupled with a nationwide thrust in the 1980s to raise classroom teacher salaries to certain minimum levels, caused a "ripple effect" that has escalated costs in all salary accounts.

The exhibit that follows draws upon a variety of financial information. This includes the state share for education (by percentage) in successive school years and the per pupil expenditure throughout the country. Although all these statistics are pertinent, it is the average staff salaries that need to

## Exhibit 4

Current Expenditures for Public Elementary and Secondary Schools Per Pupil in Fall Enrollment as Percent of National Average, 1994-95(revised)

| | | | | | |
|---|---|---|---|---|---|
| 1. New Jersey | 166.3 | 20. Minnesota | 101.9 | 39. South Carolina | 83.6 |
| 2. Alaska | 151.6* | 21. Illinois | 101.5 | 40. Missouri | 82.6 |
| 3. New York | 150.4 | 22. Virginia | 99.7 | 41. South Dakota | 81.8 |
| 4. Connecticut | 147.5 | 23. Indiana | 98.0 | 42. North Dakota | 79.6 |
| 5. Dist. Of Col. | 128.2 | 24. Washington | 97.9 | 43. Louisiana | 78.2 |
| 6. Rhode Island | 122.9 | 25. Iowa | 95.0 | 44. Tennessee | 76.5 |
| 7. Delaware | 120.0 | 26. Kansas | 94.5 | 45. Alabama | 75.9 |
| 8. Massachusetts | 120.0 | 27. Florida | 94.4 | 46. Oklahoma | 74.1 |
| 9. Pennsylvania | 119.8 | 28. Ohio | 93.7 | 47. Idaho | 73.7 |
| 10. Michigan | 116.5 | 29. Montana | 93.0 | 48. Arkansas | 72.0 |
| 11. Vermont | 116.1 | 30. Kentucky | 91.4 | 49. Arizona | 71.7* |
| 12. Wisconsin | 112.6 | 31 Colorado | 91.3 | 50. Mississippi | 69.8 |
| 13. Maryland | 112.4 | 32. Nebraska | 90.9 | 51. Utah | 62.8 |
| 14. West Virginia | 109.4 | 33. Texas | 90.6 | Mean | 100.0 |
| 15. Maine | 109.3 | 34. Georgia | 90.2 | Median | 94.5 |
| 16. Hawaii | 103.5 | 35. New Mexico | 88.3 | Range | 103.5 |
| 17. Oregon | 102.8 | 36. California | 85.8 | SDev. | 18.7 |
| 18. Wyoming | 102.6 | 37. Nevada | 85.3 | CV | 18.7 |
| 19. New Hampshire | 102.3 | 38. North Carolina | 83.8 | | |

Computed from NEA Research, Estimates data bank.

---

Current Expenditures for Public Elementary and Secondary Schools Per Pupil in Fall Enrollment , 1995-1996

| | | | | | |
|---|---|---|---|---|---|
| 1. New Jersey | $9,318 | 20. Wyoming | 5,720 | 39. North Carolina | 4,809 |
| 2. New York | 8,398 | 21. Washington | 5,708 | 40. South Dakota | 4,773 |
| 3. Alaska | 8,353* | 22. Indiana | 5,692 | 41. Missouri | 4,629* |
| 4. Connecticut | 8,246 | 23. Virginia | 5,655* | 42. North Dakota | 4,578 |
| 5. Rhode Island | 7,091 | 24. Kansas | 5,435 | 43. Louisiana | 4,537 |
| 6. Dist. Of Columbia | 7,067 | 25. Kentucky | 5,414* | 44. Tennessee | 4,387 |
| 7. Delaware | 6,944 | 26. Iowa | 5,412 | 45. Alabama | 4,295 |
| 8. Massachusetts | 6,844 | 27. Florida | 5,355 | 46. Idaho | 4,237* |
| 9. Pennsylvania | 6,799 | 28. Georgia | 5,349 | 47. Oklahoma | 4,209 |
| 10. Michigan | 6,523* | 29. Ohio | 5,295 | 48. Arkansas | 4,058 |
| 11. Vermont | 6,505 | 30. Montana | 5,202 | 49. Arizona | 4,012* |
| 12. Wisconsin | 6,474 | 31. Texas | 5,168 | 50. Mississippi | 3,912* |
| 13. Maryland | 6,407 | 32. Nebraska | 5,166 | 51. Utah | 3,670 |
| 14. West Virginia | 6,391 | 33. New Mexico | 5,089 | Mean | 5,652 |
| 15. Maine | 6,116 | 34. Colorado | 5,051* | Median | 5,412 |
| 16. New Hampshire | 5,890 | 35. Illinois | 4,950 | Range | 5,648 |
| 17. Oregon | 5,844 | 36. California | 4,896 | SDev. | 1116.3 |
| 18. Hawaii | 5,831 | 37. South Carolina | 4,886 | CV | 19.8 |
| 19. Minnesota | 5,740* | 38. Nevada | 4,828 | | |

Computed from NEA Research, Estimates data bank.

**Exhibit 4, continued**

Current Expenditures for Public Elementary and Secondary Schools Per Pupil in Fall Enrollment As Percent of National Average, 1995-1996.

| | | |
|---|---|---|
| 1. | New Jersey | 164.9 |
| 2. | New York | 148.6 |
| 3. | Alaska | 147.8* |
| 4. | Connecticut | 145.9 |
| 5. | Rhode Island | 125.5 |
| 6. | Dist. Of Columbia | 125.0 |
| 7. | Delaware | 122.9 |
| 8. | Massachusetts | 121.1 |
| 9. | Pennsylvania | 120.3 |
| 10. | Michigan | 115.4* |
| 11. | Vermont | 115.1 |
| 12. | Wisconsin | 114.5 |
| 13. | Maryland | 113.4 |
| 14. | West Virginia | 113.1 |
| 15. | Maine | 108.2 |
| 16. | New Hampshire | 104.2 |
| 17. | Oregon | 103.4 |
| 18. | Hawaii | 103.2 |
| 19. | Minnesota | 101.6* |
| 20. | Wyoming | 101.2 |
| 21. | Washington | 101.0 |
| 22. | Indiana | 100.7 |
| 23. | Virginia | 100.1 |
| 24. | Kansas | 96.2 |
| 25. | Kentucky | 95.8* |
| | Iowa | 95.8 |
| 27. | Florida | 94.7 |
| 28. | Georgia | 94.6 |
| 29. | Ohio | 93.7 |
| 30. | Montana | 92.0 |
| 31. | Texas | 91.4 |
| | Nebraska | 91.4 |
| 33. | New Mexico | 90.0 |
| 34. | Colorado | 89.4* |
| 35. | Illinois | 87.6 |
| 36. | California | 86.6 |
| 37. | South Carolina | 86.4 |
| 38. | Nevada | 85.4 |
| 39. | North Carolina | 85.1 |
| 40. | South Dakota | 84.4 |
| 41. | Missouri | 81.9* |
| 42. | North Dakota | 81.0 |
| 43. | Louisiana | 80.3 |
| 44. | Tennessee | 77.6 |
| 45. | Alabama | 76.0 |
| 46. | Oklahoma | 73.9 |
| 47. | Idaho | 75.0* |
| 48. | Arkansas | 71.8 |
| 49. | Arizona | 71.0* |
| 50. | Mississippi | 69.2* |
| 51. | Utah | 64.9 |
| | Mean | 100.0 |
| | Median | 95.8 |
| | Range | 100.0 |
| | SDev. | 19.8 |
| | CV | 19.8 |

Computed from NEA Research, Estimates data bank

be highlighted. A wide range of fluctuation exists among the 50 states. These differences are influenced by both geographic and economic factors in specific regions. Everyone needs to be paid a decent wage regardless of their position. You may not agree with actual salary structures within your state or province, but they are necessary to attract and to retain competent staff. The bottom line is that "labor" costs comprise a large percentage of the fixed costs necessary to conduct the business of education.

## Mandates

Mention this word and you will draw the ire of the majority of school administrators. Each year both the federal and local state governments introduce a host of mandates that are usually difficult to implement, are costly and often turn out to be quite cumbersome. Mandates cover a wide variety of issues from administration through transportation... and just about everything else.

This is not to infer that mandates do not serve a useful purpose. Without certain mandates, school districts would have a difficult time in attaining compliance. However, both the expectations and timing of most mandates usually work to the detriment of our public schools.

A sampling of federal regulations that have universal ramifications includes:

1. Asbestos
2. Americans with Disabilities Act
3. Blood borne pathogens
4. Child nutrition programs
5. Clean Air Act
6. Indoor air quality
7. Lead paint and lead in water
8. Radon
9. Right to know
10. Special education rules and regulations
11. Underground storage tank removal
12. Various OSHA standards

It would be extremely difficult to individually cost out each of the aforementioned programs. It is probably safe to assume that hundreds of millions of dollars are required for implementation.

The next set of exhibits gives a more concise overview of some of the federal mandates that have an impact on all school budgets throughout the United States. Similar requirements exist in the Canadian provinces. Very simply, mandates cost dollars; and if school districts fail to comply, they often become the target of the public's wrath. Additionally, school districts are subject to the possibility of severe financial penalties, including potential liability damages, if compliance is ignored.

The general public usually fails to understand the financial impact of mandates on the school budget. The brief overview that follows should help set the record straight.

## Exhibit 5

## Federal Mandates

| Federal Regulation | Description | Classification | Report | Cost |
|---|---|---|---|---|
| 40CFR280 | OSHA Underground Storage Tanks | Fixed Charges | PE | 1 |
| 29CFR1910.1030 | OSHA, Occupational Exposure to Bloodborne Pathogens, Waste Mgmt, Medical Waste | Operations | PE | 1 |
| 29CFR1910.120 | Waste Management, Hazardous Waste<br>OSHA, Hazardous Waste Operations and Emergency Responders | Operations | PE | 1 |
| Clean Air Act | Clean Air Act<br>Air Pollution Control Permits<br>Trip Reduction Act | Fixed Charges | PE | 1 |
|  | Right to Know | Administration | PE | 1 |
| 29CFR1904 | OSHA, Recording and Reporting Occupational Injuries and Illness Log #200 | Administration | PE | 1 |
| 29CFR1910.22,23 | OSHA, Walking/Working Surfaces (PEOSHA) | Fixed Charges | PE | 1 |
| 29CFR1910.36,37 | OSHA, Means of Egress | Fixed Charges | PE | 1 |
| 29CFR1910.157 | OSHA, Portable Fire Extinguishers | Operations | PE | D |
| 29CFR1910.158 | OSHA, Standpipe and Hose System | Operations | PE | D |
| 29CFR1910.159 | OSHA, Automatic Sprinkler Systems | Operations | PE | D |
| 29CFR1910.165 | OSHA, Employee Alarm System | Operations | PE | D |
| 29CFR1910.1200 | OSHA, Hazard Communications | Operations | PE | 1 |
| 20USC1400ETSEQ | Individuals with Disabilities Education Act | Administration | AN | D |
| 28CFR31 | Americans with Disabilities Act (ADA) | Administration | PE | 1 |
| 29CFR1910.5(A).1 | OSHA, General Duty Clause (Also Ergonomics) | Administration | PE | 1 |
| 29CFR1910.24 | OSHA, Fixed Industrial Stairs | Fixed Charges | PE | D |

Classification - derived from 12 GAAP budget categories
Description - identifying description of code or statue
Report (AN) - Annual
(PE) - Periodic Evaluation
Cost - direct or indirect appropriation in local district budget

SOURCE: Mandates Project, a joint effort of NJ School Boards Association, NJ Associations of School Administrators, NJ Association of School Business Officials and NJ Principals and Supervisors Association, September 1994.

## Exhibit 5, continued

## Federal Mandates

| Federal Regulation | Description | Classification | Report | Cost |
|---|---|---|---|---|
| 29CFR1910.25,26 | OSHA, Portable Ladders | Operations | PE | D |
| 29CFR1910.27 | OSHA, Fixed Ladders | Fixed Charges | PE | D |
| 29CFR1910.28 | OSHA, Scaffolds | Operations | PE | D |
| 29CFR1910.38 | OSHA, Employee Emergency Plan | Administration | PE | 1 |
| 29CFR1910.106 | Hazardous Materials | Operations | PE | 1 |
| 29CFR1910.132 | OSHA, Personal Protective Equipment | Operations | PE | D |
| 29CFR1910.133 | OSHA, Eye and Face Protection | Operations | PE | D |
| 29CFR1910.134 | OSHA, Respiratory Protection | Operations | PE | D |
| 29CFR1910.135 | OSHA, Head Protection | Operations | PE | D |
| 29CFR1910.136 | OSHA, Foot and Leg Protection | Operations | PE | D |
| 29CFR1910.137 | OSHA, Electrical Protective Devices | Operations | PE | D |
| 29CFR1910.141 | OSHA, General Environmental Equipment | Operations | PE | D |
| 29CFR1910.144 | OSHA, Safety Markings, Signs and Tags | Operations | PE | 1 |
| 29CFR1910.146 | OSHA, Permit Required Confined Space | Operations | PE | 1 |
| 29CFR1910.147 | OSHA, Control of Hazardous Energy (Lock Out/Tag Out) | Operations | PE | 1 |
| 29CFR1910.151 | OSHA, Medical Services and First Aid | Operations | PE | D |
| 29CFR1910.176 | OSHA, Materials Handling and Storage | Operations | PE | 1 |
| 29CFR1910.178 | OSHA, Powered Industrial Trucks | Operations | PE | D |
| 29CFR1910.212 | OSHA, Machinery and Machine Guarding | Operations | PE | D |
| 29CFR1910.242-4 | OSHA, Hand and Portable Powered Tools | Operations | PE | D |
| 29CFR1910-251 | OSHA, Welding, Cutting and Brazing | Operations | PE | D |

Classification - derived from 12 GAAP budget categories
Description - identifying description of code or statue
Report (AN) - Annual
(PE) - Periodic Evaluation
Cost - direct or indirect appropriation in local district budget

SOURCE: Mandates Project, a joint effort of NJ School Boards Association, NJ Associations of School Administrators, NJ Association of School Business Officials and NJ Principals and Supervisors Association. September 1994.

## Exhibit 5, continued

**Federal Mandates**

| Federal Regulation | Description | Classification | Report | Cost |
|---|---|---|---|---|
| 29CFR1910.303.5 | OSHA, Electrical | Operations | PE | D |
| 29CFR1910.333/37 | OSHA, Electrical | Operations | PE | D |
| 29CFR1910.1030 | OSHA, Occupational Exposure to Bloodborne Pathogens | Operations | PE | D |
| 29CFR1926.650 | OSHA, Trenching and Excavation | Operations | PE | D |
| 29CFR1926.1000 | OSHA, Rollover Protection, Overhead Protection | Operations | PE | D |
| 40CFR261 | Waste Management, Hazardous Waste | Operations | PE | D |
| 40CFR702 | Waste Management, Hazardous Waste | Operations | PE | D |

Classification - derived from 12 GAAP budget categories
Description - identifying description of code or statue
Report (AN) - Annual
(PE) - Periodic Evaluation
Cost - direct or indirect appropriation in local district budget

SOURCE: Mandates Project, a joint effort of NJ School Boards Association, NJ Associations of School Administrators, NJ Association of School Business Officials and NJ Principals and Supervisors Association. September 1994.

## Special Education

Although this topic was covered previously, it is necessary to segregate the issue in order to give a more in-depth analysis of spiraling costs for special education placements. Costs have escalated dramatically during the current decade. Districts have assumed expenditures in excess of $100,000 for one classified student. This is usually the exception rather than the rule, but it illustrates the financial impact one student can have on a local budget.

What has caused this escalation in per pupil expenditures? The reasons are numerous. Parents of special education children are quite vocal and adamant regarding placement of their children. They also are represented by a formidable and concentrated lobbying contingent, one whose voice is heard on a local, state and national level.

The judicial system has also been favorable in their decisions regarding parental rights. These decisions have caused school districts to shy away from mounting any serious challenge to parental requests. School districts seem resolved to the following axiom: "It is better to switch than fight" when confronted by parents on a placement for a classified student.

Child study teams are reluctant to take the time to adequately assess students because of the costs of placing a student. Team members usually have one overarching goal: the most expedient placement possible. However, expediency does not always equal economy.

Federal and state statues also prescribe certain standards, curricula and even personnel based on a student's classification. These mandates obviously play an integral part in determining special education costs.

All these factors can make it extremely difficult for the school business administrator to predict special education costs. Circumstances can change so rapidly that it is next to impossible to determine accurate expenditures for special education. One placement can wreak havoc on a budget, especially in smaller districts that lack the financial resources to absorb these costs.

This is not to imply that students with special needs should not be serviced. Special needs students must be provided with essential and necessary programs and services. The question that needs to be addressed is whether these services can be delivered in a more economical and efficient manner?

## Utility and Other Fixed Costs

Utility costs, while a necessity, represent yet another item over which the business administrator has little or no control. All states have regulatory agencies that establish rate increases that have a direct bearing on school budgets. Although rate increases have remained rather stable during the 1990s, they have still exceeded the inflationary growth factor and pose a problem when attempting to forecast long term budget expenditures.

For example, most school districts operate on a July 1-June 30 fiscal year. Budgets are developed well in advance of July 1. Any swings in a budget line item, especially in an area as unpredictable as utility costs, may prove detrimental to a district's overall finances. Again, this could have a major impact in smaller districts where any deviation from the adopted budget could prove disastrous.

### Fixed Costs

Fixed costs encompass a diverse list of topics, but for discussion purposes, one example will be highlighted. During the 1980s, health benefits increased significantly. It was not uncommon for districts to experience annual increases of at least 25 percent, sometimes more. Imagine what an effect this would have on your local school budget?

Attempting to control spiraling health care costs has been a topic that has drawn attention from the highest levels of government. However, this is neither the time nor the place to discuss national health care reform. What is important is to realize the large portion of fixed costs that fall under this single category. If you define health benefits to include items such as dental, prescription and vision coverage as supplied by many districts, one quickly comes to the conclusion that all these perks total big dollars.

This is a contractual obligation of the school district. When the bill arrives, it must be paid.

## Violence and Vandalism

It has been stated that our schools mirror society. If this statement is only half true, then the violence and vandalism occurring in our schools should not be a surprise to anyone.

During the last two decades, crime has been escalating.

Unfortunately, this type of behavior has crept into our schools and caused an educational, financial and social burden to students, staff and administration. Students, teachers and administrators are being subjected to more and more verbal and physical abuse. Millions are spent on security guards, alarm systems, metal detectors and repair of buildings that have been vandalized.

One misconception is that only our large urban areas face these problems. Crime has no boundaries, and every type of district, whether urban, suburban or rural, will have to address these issues at one time or another. Read any local or national newspaper and inevitably there will be an article dealing with violence.

Business administrators have a responsibility for the health, safety and welfare of all individuals under their jurisdiction. They are required to budget whatever is necessary to achieve this goal. In an environment of shrinking fiscal resources and escalating costs associated with violence and vandalism, the business administrator is often placed in a catch-22 situation. In most instances, money expended to reduce or curtail violence and vandalism is siphoned from the educational program. Therefore, students are usually shortchanged one way or the other.

Crime does not pay, but we all pay for crime.

## Conclusion

The more things change, the more they remain the same. This saying is certainly relevant to school budgets. Although circumstances that affect school budgets change almost on a daily basis, the components of this financial document remain rather constant.

A majority of the public at large either fails to realize or refuses to accept the fact that little flexibility exists in the budget development process. It is the hope that this chapter has enlightened the reader to the narrow parameters and minimal latitude that exist when dealing with school budgets.

CHAPTER 3

# Paying for Education

Mention school funding in any type of setting and one is bound to receive a response. The very thought of paying for public education usually conjures up horrific visions that probably could be included in the next Steven Speilberg thriller.

One may ask why does the topic of financing our public schools cause people to react with such emotion? The answer is quite simple: taxes! No one likes them and they like paying them even less. This idea of paying for a public entity causes even a greater furor.when people are required to pay for a service in which they fail to inure any obvious benefit. A great deal of our society falls under this latter category. However, a majority of these very same individuals have already derived substantial benefits from the system of public education. Therefore, it is quite ironic that one of the cornerstones of our society is treated in such a demeaning fashion.

It is incredulous that the very same people who bemoan paying for their schools have no hesitancy about spending freely on other activities or events. If you have recently attended a major sporting event, you are aware of the exorbitant amount it costs for tickets, parking, food and possibly souvenirs. Two people can easily spend over $100 for a day at the ballpark — and in many places, that's probably a conservative figure. According to Team Marketing Report, a newsletter that tracks professional sports, the cost of a ticket for an NBA game has jumped nearly 37 percent since 1991. NFL tickets are up more than 32 percent, while major league baseball fans are paying 23 percent more.[3] Regardless, stadiums and arenas in big market areas are usually full, ticket prices are constantly escalating and athletes are commanding ludicrous salaries. Have you checked recent signings in baseball and basketball?

Owners of sports franchises have made millions on their initial investment. The Eagles professional football team was purchased for $185,000,000, Tampa Bay for approximately $190,000,000. The LA Dodgers were sold for approximately $400,000,000. What happened to Da Bums? Look at the gaming industry. Casinos are booming. Millions of dollars are spent daily on gambling activities and people are fighting for spots at the slot machines. Atlantic City and Las Vegas are continually expanding.

All of this snows that we, as a society, need to examine our priorities. Shouldn't one of the fundamental goals of our society be to educate all our children, regardless of birthright? They are our most precious resource, and developing their skills and talents are essential if our society is to continue to be viable and productive.

This chapter will deal with how states generally attempt to resolve the difficult task of funding education. The chapter will be divided into two sections: the first section presents an overview of various funding formulas, a brief description of each with pros and cons, and examples of specific state funding mechanisms. The second portion discusses the revenue sources currently used to fund education and examines why there is such acrimony regarding the entire issue of funding.

## Funding Formulas

A majority of states utilize similar formulas to finance their public schools because the objectives of a good school finance system are universal. There are four basic objectives of such a system:

1. To ensure that every district has an adequate level of revenue.
2. To promote equity in terms of revenue and local tax effort across school districts.
3. To ensure districts adequate reimbursement for categorical and non-instructional programs such as special education and transportation.
4. To give school districts the ability to generate supplemental revenue. This is usually done within strict guidelines to control the absolute level of spending.

Following is a discussion of the basic types of formulas that have been implemented throughout the country in order to accomplish the four objectives.

One of the most popular formulas is the foundation program. The idea of a foundation program is not complex. The state sets a level of funding per pupil, determines what portion could be funded locally and makes up the difference. For example, if the state determined that the per pupil cost is $5,000 and that the district could raise $3,000 per pupil through its tax base, the state would make up the difference of $2,000.

Although this type of funding is relatively easy to comprehend and seems to be equitable, it poses at least two drawbacks. It does not address school districts that either exceed or fail to reach their specified foundation amount. These two areas do not pose insurmountable problems and can be dealt with through the following solutions.

In the case of excess revenue, the state may:

1. Permit the districts to retain the excess revenue collected or direct the district to reduce the amount of taxes collected.
2. Require those districts that collect excess revenue to return the additional amount to the state. This is

referred to as recapture.

At the opposite end of the spectrum, those failing to reach their foundation level can be handled in several ways:

1. By establishing the same amount of per pupil aid as provided by the state. As indicated earlier, if the foundation level is $2,000, the state would provide this amount regardless of what the district raises.
2. By proportionately reducing the amount of foundation aid based upon the shortfall. For example, if the district only raised $2,000 instead of the required $3,000, the state's share could be reduced by $1,000.

None of these solutions is particularly appealing since they would cause larger disparities between wealthy districts and those who lack adequate financial resources or are heavily taxed.

A second funding mechanism deals with a guaranteed system. This involves the application of the following mechanisms: a guaranteed tax base, tax yield calculation and power equalization.[4]

Under a guaranteed tax base, the state establishes an amount of property wealth per pupil and assures districts that the level of taxation is ample to produce the guaranteed base. The state would be responsible for funding the difference between the amount raised locally and the predetermined amount. If school districts exceed the guaranteed tax base, they will be ineligible for any state aid.

A guaranteed yield system differs from a guaranteed tax base in that the former is predicated upon a tax yield established on a per pupil basis rather than property tax wealth. The state would be responsible for providing the difference between the determined per pupil amount and the amount raised through local district taxation. If the district generates more revenue than necessary it would not be entitled to any state aid. Any excess revenues raised locally under either of these two programs would be retained by the local district.

Power equalization is a method of dealing with the wealthiest districts; those whose ability to tax generates excess revenue. In such instances, the state would not be responsible for any state aid and would also recapture any excess funds. These funds would be disbursed to other districts in need of state aid. These moneys could also be used to reduce property tax rates in high tax areas.[5]

Guaranteed structures also pose equity problems since many variables come into play. A guaranteed formula has many different components, and decisions have to be reached regarding such questions as:

1. Should the statewide average be set at the highest, the mean or some other level of district wealth?
2. Should the state establish a "reward- for- effort" system to encourage districts to increase their tax rates?
3. Philosophically, the question also needs to be raised regarding the state's role in controlling a local school district's tax rate. Should this not be a matter of local prerogative?[6]

All these questions need to be addressed before establishing any type of guaranteed formula. In most instances, states have failed to design a completely adequate program that meets the litmus test of equity and equality established by the Supreme Court.

One of the methods used by states in attempting to respond to the issues of financial equity and equality is the development of a tiered funding formula. Essentially, a tiered system combines reward for effort with a foundation program. If properly structured, this type of system can provide the state with cost controls and a high level of equity across school districts.[7]

## Revenue Sources

The methods of funding public education are constantly being addressed, challenged and modified throughout the states and provinces. This issue, especially in the last three decades, seems to be a focal point for all politicians as well as the courts — and yet a universal solution has not been reached. In the next decade, the very same issues likely will continue to be addressed.

Where does the money come from to fund education? This question can be answered in one word: taxes. Of course, we all know where taxes come from, our pockets. States use a variety of taxes to fund education, although the primary source in most states is property taxes. Other taxes that could be used are gross receipts, personal income and sales.

In today's tighter economic times, taxes have been a topic of discussion and concern. Mention the word taxes and usually a clamor occurs. Why are people so provoked by this issue? Why do politicians always seem to make the reduction of taxes their number one priority? Let's remember our heritage — taxes have been an issue in America long before the Boston Tea Party, and they always will be.

As previously mentioned, many of our citizens who no longer have school aged children may feel that they are not responsible for a benefit they no longer receive. This is not a valid argument. Look at our Social Security system; many people who continue to pay into the system may never be able to derive benefits from the program. The same holds true for programs such as unemployment and worker's compensation. The fact remains that we are, and always will be, required to pay for programs that may not benefit us directly. That's just the American way.

People also become distressed over their taxes because of the way they are structured and implemented. Most taxes fall into two categories, progressive or regressive. A progressive tax could be defined as one that increases proportionately according to income. A regressive tax means that income is disproportionate to the amount of taxes paid. Federal and state personal income taxes are generally cited as examples of a progressive tax. Property taxes are considered to be regressive taxes. This also holds true for the sales tax, which currently exists in 45 states. In the eyes of the public, all taxes are regressive. However, unless an alternative revenue source is found (which is highly unlikely), taxes will continue to provide the revenue stream necessary to fund public education in this country.

Of all the taxes, the property tax is the primary revenue source used to fund education. In the mid- to late-1980s property taxes boomed then subsequently flattened. Because many states determine their property wealth by equalizing property values or by using local assessments, the downturn has had dramatic effects on local property taxes.

Many states and provinces, realizing the over-reliance on property taxes, have attempted to reduce these taxes by implementing a variety of different techniques. The state of Indiana has established limitations on property tax increases. Interestingly, the financial disparity between school districts increased when property taxes were reduced. Other factors within the state are also causing problems. For example, Indiana does not use local assessments or true market values when evaluating property wealth. The formula currently used has widened the gap between school districts. Finally, Indiana's current system fails to consider regional cost differences throughout the state, a common failure in many funding formulas.

In 1993, the state of Michigan eliminated the use of property taxes as the main source of funding their public schools. With the shift away from reliance on property taxes, the state assumed a greater portion of funding responsibilities. To fund this policy change, called Proposal A, the state implemented or increased a variety of nuisance or "sin" taxes. These included increasing the cigarette tax and the state sales tax, and implementing a real estate transfer tax. The state also increased the business property tax while conversely decreasing the statewide homeowner's property tax. Even in 1997, it is still difficult to evaluate the effects of this financial reform on the schools, students and taxpayers of Michigan.

States that require voters to pass a recommended local tax levy have developed another mechanism to curb taxes. This process is currently used in a variety of states. In some cases, the requirement is taken to extremes. For example, defeated budgets are reviewed in New Jersey by the local municipality. If agreement is not reached between the municipality and the school district on budget reductions, the commissioner of education makes the final determination. This is a flawed process that harms relationships, and consumes too much time and money. The state of Ohio makes the process even more onerous by mandating that the dollar amount raised by a levy can never increase — even if property values are reappraised. Some states have included a "circuit breaker" in their formula to minimize the burden of property taxes on senior citizens or low income households respective of age.[8]

## Conclusion

Taxes, taxes, taxes! We all must pay our share, like it or not.

This is not new. People may argue that they receive no direct benefit from paying for public education. This is simply not the case. The majority of these very same individuals and their relatives are products of our public schools. Public schools are essential components of any society and we need to provide for their continued success.

Many other programs currently being funded by tax dollars may not be enjoyed or used by every citizen. Does this mean that we reduce or limit payments to these programs?

We always have been a nation that has offered assistance when necessary. This basic premise must not change. We must continue to support public education. Anything less is unacceptable. If we opt to ignore our educational system, we must be prepared to pay the consequences.

CHAPTER 4

# Facilities — The Infrastructure Problem

*Facilities, facilities everywhere,*
*Most of them in disrepair.*
*How did they get this way?*
*Lack of funds in capital outlay*

This is not a verse attributable to Robert Frost but it does wax poetic on why a large portion of facilities across the nation are in such a state of disarray.

Lack of funding for capital projects is only one of many factors that have caused our facilities to erode and to become costly to repair or replace. There are many other factors that contribute to the continued erosion of our facilities: federal and state mandates, failure to pass referendums in states requiring them, vandalism, cutting corners at the expense of facilities, lack of proper personnel to maintain buildings, increases or decreases in student population (requiring changes in function and design), and a general lack of knowledge by the public about why it is imperative to allocate funds to provide adequate facilities.

The public generally believes that buildings, especially those that are relatively new, require little or no attention.

This is an inaccurate perception. The day a building is completed, it begins to depreciate and requires a maintenance program to protect the school district's investment.

Shirley J. Hansen estimates that more than 5 million students attend school in substandard facilities on a daily basis.[9] This fact highlights the philosophy that permeates our society: spend, spend, spend...so long as it does not involve funds for facilities. Even *America 2000*, which deals with specific educational outcomes, lacks any reference to the infrastructure problem.

It is ironic that education is often compared with business and industry and that their business practices are held in such high esteem. How many times have we heard the cliché, "If schools operated as a business, they would run more efficiently and effectively." Yet, if corporations allowed their infrastructure to reach the catastrophic proportions that exist in our public school districts, they would very quickly lose their competitive edge and soon be out of business.[10]

These examples illustrate the fact that the erosion of our educational infrastructure has caused such a spiral in costs that the fiscal problem is almost insurmountable.

The plight of specific states brings the magnitude of the problem more clearly into focus. In New Jersey, the financial scope of the problem is more than $8 billion and escalating. In Illinois, no one can even place a number on costs. Suffice it to say, the number is in the billions.

Our Canadian neighbors face similar problems. The province of Ontario estimates that it will cost more than $396 million to correct facility infrastructure deficiencies. When you aggregate the costs across North America, it is estimated that the total exceeds $112 billion. This figure does not include the approximately $70 billion needed to bring higher education facilities in the United States into code compliance.

The figures are staggering, and there is no relief in sight. Even if we estimate that costs will increase by only three percent per year, the figure grows by close to $4 billion dollars annually. This is not a paltry sum by any stretch of the imagination.

We could probably best characterize this entire situation by this phrase from the Eagles hit song, "Hotel California":

*We stab it with our steely knives,*
*But we still can't kill the beast*

Some may think the problem is exaggerated, but that is not the case. Our facilities have been neglected far too long and now both the students and taxpayers are suffering the consequences. How do we expect our children to receive a high-quality education when our infrastructure is crumbling? How can we expect the taxpayers to fund solutions to a problem that keeps increasing in magnitude? How do we address these concerns?

Attempts have been made to alleviate current conditions. However, efforts to date have not produced the desired results, and our facilities continue to be woefully inadequate. In 1991, the state legislature of Idaho (a sparsely populated state with only 113 school districts) approved a study of facilities (Idaho Code 1986). The study was based upon three factors: current conditions, enrollment projections, and technological readiness.[11] A conservative estimate of expenditures required to meet these needs amounted to more than $700 million. In New Jersey, in 1991, it was required that districts develop a five-year maintenance plan with the following components.

1. Assessment of structural damage
2. Upkeep of needs
3. Prioritization of projects
4. Cost analysis[12]

In a state comprised of approximately 2,300 public schools educating more than 1.2 million students, a study of this nature was necessary. Although this was a noble endeavor, not much money has been committed or expended to resolve the problem.

The second item, the upkeep of needs, gets to the heart of the problem. Most districts, because of a lack of planning, adequate personnel or funds, tend to ignore the development and implementation of preventive maintenance programs. This causes a catch-22 situation — saving for the short term while mortgaging the future.

## Funding the Infrastructure

Most states attempt to fund their infrastructure needs by using a variety of revenue sources. The sources could include: budgeted funds, loans, grants or the sale of bonds. In any of these examples, school districts have experienced a great deal of difficulty in allocating or obtaining funds due to the anti-tax sentiment that permeates our society.

A sampling of the situation in various school districts will bring this statement more clearly into focus. Although most of the districts listed are urban in nature, the problem is prevalent in all socioeconomic areas.

Let's begin our facility's tour in Chicago, where it is estimated that it would cost approximately $3 billion dollars to upgrade school facilities. The district budgeted $270 million for facilities; approximately 10 percent of the amount needed. The district relies heavily on bonds although politicians are wary of requests for funding through this mechanism.

Next stop, Montgomery, Ala., where the operations maintenance budget has decreased 10 percent in the past four years. The district does not maintain any capital improvement budget. In June 1994, voters rejected a bond referendum that would have permitted the county to remove all portable classroom facilities.

The "Big Easy," here we come: New Orleans. Unfortunately, the former nickname is a misnomer when it comes to dealing with facility problems. Schools in New Orleans are in extremely poor condition due to lack of funds for maintenance and repair. The district budget dedicated to facilities equals two percent of the total budget. This is a decrease of 50 percent during the last decade. In the past 20 years, five bond referendums have been proposed, two have been successful.

From the "Big Easy" to the "Big Apple" — New York City. In the Queen City of the East, the capital improvement budget is approved on an annual basis by the city council. Each school is allocated a maintenance and repair budget based solely on square footage. This type of formula makes it difficult to develop any sequential maintenance program, since actual needs and square footage costs do not necessarily have any direct correlation. It is estimated that by 2000 the city will need $17 billion to upgrade and modernize facilities. The prospect of receiving this amount of funding is improbable.

The next stop is our nation's capital, Washington, D.C. Most of the schools are in need of urgent repair; and in the 1993/94 school year, they faced approximately $90 million worth of fire code violations. The district has allotted approximately $100 million out of a $557 million budget for maintenance needs. The capital budget has shown a steady decline in the last 10 years.[13]

Last stop, a quick hop to visit our Canadian neighbors in Ontario. It is estimated that the province of Ontario has almost $20 billion invested in its schools. Surprisingly, the provincial government has allocated only $34 million dollars annually for the upkeep and maintenance of these facilities. This is a mere 0.2 percent of their replacement value.[14]

Well, that ends our trip. It is my hope that it pointed out the severity and magnitude of the infrastructure problem across our continent.

Last, we must all address the issue of dollars for facilities. Realizing that no one entity has the "deep pockets" to solve all it's problems; there must be a collective effort to make an impact.

In the United States and Canada, consideration should be given to develop an "infrastructure superfund." An initial amount of $1 billion should be set aside in the fund. The funds should be made available as low cost loans with a short payback time. Using this funding vehicle, states and provinces will be able to begin addressing their infrastructure needs without breaking the bank. The fund would be perpetual in nature with its solvency guaranteed by the respective national government. A similar proposal is now being considered in the United States.

Additionally, states and provinces should be required to allocate matching funds and to make these moneys available to local school districts on a basis patterned after the national initiative. This would almost double the amount of dollars available for the infrastructure without having an impact on taxes.

Another method of directing money toward facilities and simultaneously increasing the job base would be to use the model adopted in New Jersey. Through legislation known as the Public School Finance Assistance Act of 1993, the state implemented the New Jersey Works for Schools Program. The program administration has been delegated to the Economic Development Authority (EDA). The EDA will administer funds totaling $300 million through three separate programs: two programs dealing with loans and one grant program.[15] This has proved highly beneficial to the state of New Jersey; similar strategies could be used in other states and the Canadian provinces.

Another source of revenue could come from developers. New housing starts have a direct impact on student enrollment by causing the need for new facilities or, at the minimum, the reopening and retrofitting of existing structures. All this costs money, which is usually generated by increasing property taxes. As previously mentioned, this is not a popular option in the current era.

If developers affect a school district's need for facilities, shouldn't they share in some of the increased financial liability? Developers could be required to donate a school site and be required to pay for "soft costs" (such as surveys, legal and architectural fees, site improvement) or make a direct financial contribution for construction costs. This is known as impact aid. Most developers probably would oppose such plans and could challenge any such mandate.

## Conclusion

The infrastructure problem is like a runaway freight train, picking up speed at every turn. It must be brought under control. If we are not careful, soon we all may be reciting a new version of an old nursery rhyme:

*All the kings horses*
*And all the kings men*
*Couldn't put our nation's facilities*
*Back together again.*

## CHAPTER 5

# Budgeting and Reporting

Developing a school district budget has been and continues to be one of the great mysteries of life. In most instances, the budget mystifies local residents and politicians alike. It is not a complex document, not much different from a household budget except for resources, expenditures and timelines.

Both documents are similar in that they contain certain recurring fixed costs. For example, a home budget is usually developed around primary expenditures such as rent or mortgage payments, food bills, utility costs, loans and clothing expenses. Secondary items such as medical expenses, entertainment, and costs for higher education also have to be factored into the total budget. A savings plan also needs to be included as well as some dollars for contingencies or emergencies.

The majority of expenditures in a school district budget cover such items as salaries and benefits, utilities, insurance and other programs mandated by state or federal law. If we dissect a school district budget, we find that approximately 80 percent of the expenditures are fixed. Administrators have no options except compliance, a fact that the general public either fails to understand or refuses to comprehend. School district budgets also need to include funds for capital improvement and repairs. As mentioned in the previous chapter, districts' responses are woefully inadequate in addressing these concerns. Like a household budget, districts should maintain a general fund balance for contingencies or emergencies.

Even the process for budget development is similar. Both require planning, and they also need to be comprehensive and balanced: comprehensive with respect to required needs; balanced in that revenues equal or exceed expenditures.

## Budget Development

Developing a budget is not analogous to organizing a fire sale. It takes planning, planning and more planning. To facilitate this process, most districts or organizations develop a budget calendar. The exhibit that follows is a condensed version of the 1997/98 budget calendar provided by the New Jersey State Department of Education. This document outlines key dates regarding the budget submission process and related school election requirements. Specific dates were omitted since they vary on an annual basis.

In many states and the Canadian provinces, the local citizenry does not vote on the budget. Elections are held to select representatives to the board of education or board of trustees. Under any set of circumstances, this calendar is an excellent reference source, and is a highly recommended planning tool for all public jurisdictions. School districts operate on a fiscal year that usually differs from the municipality, province or national government. In the United States, the federal government operates from October to October. In the state of New Jersey, the fiscal year usually runs from July to June. Municipalities, on the other hand, usually operate on a calendar year basis.

In the Canadian provinces, the calendar varies from province to province. The school districts in Ontario operate on a calendar year while the provincial government begins its fiscal year on March 1. There is an effort under

## Exhibit 7

New Jersey Department of Education Office of Finance
1997 School Election Procedures Related Budget Procedures

| **Function** | **Procedure** |
|---|---|
| *Release of State Aid*<br>(Usually late January or early February) | The Department will release state aid notices for the school year within days of the Governor's budget message. |
| *Absentee Ballots*<br>(Usually late February) | The county clerk in the case of a school election in a regional or other school district comprising more than one municipality or the clerk of the municipality for a school district comprising a single municipality shall publish or cause to be published the notice to persons desiring military service and civilian absentee ballots prior to the 50th day immediately preceding the election. Notices shall be published in at least one newspaper in each district in which the election is to be held or if no newspaper is published in the district, then in a newspaper published in the county and circulating in the district. All notices shall be display advertisements. |
| *Nominating Petitions*<br>(Usually late February) | Nominating petitions must be filed with the secretary of the board of education on or before 4:00 p.m. of the 50th day before the date of the election. |
| *Challenge to Petitions*<br>(Usually late February) | Last day to file objections to candidates' petitions.<br>Candidate may file a complaint with the Superior Court setting forth any invasion or threatened invasion of rights under the candidate's petition. Forty-sixth day prior to election. |
| *Drawing for Position on Ballot*<br>(Usually early March) | The drawing of names for ballot positions shall be performed by the secretary of the board of education and take place seven working days following the last day for filing petitions for the annual school election. The secretary of the board of education shall make public announcement at the drawing of each name, the order in which the name is drawn and the term of office for which the drawing is made. |

## Exhibit 7, continued

| **Function** | **Procedure** |
|---|---|
| *Advertising for Public Hearing*<br>(Usually mid-March) | The board of education shall cause notice of such public hearing and the statement annexed to the budget to be published at lease once in at least one newspaper published in the district and if no newspaper is published therein, then in at least one newspaper circulating in said district not less than four days prior to the date fixed for such public hearing. |
| *Advertised Budget*<br>(Usually late March) | County superintendents to approve advertised budget statement. Same date applies to finalizing budget statement for ensuing year. |
| *Posting of Elections*<br>(Usually early April) | The county board of elections shall post at least seven election notices on schoolhouses and other public places designated by the board of education. |
| *Publishing of Elections*<br>(Usually early April) | The county board of elections shall publish notice of election in at least one newspaper published in each municipality in the district. If no newspaper is published in each municipality or if such a newspaper will not be published in time to publish the notice in accordance with the law, then notice must be published in at least one newspaper published in the county or state and circulating in the municipality. |
| *Annual Election*<br>(Usually mid-April) | Annual school election in all districts. Polls shall be open between the hours of 5 and 9 p.m. and during any additional time which the school board may designate between the hours of 7 a.m. and 9 p.m. |
| *Reorganization*<br>(Usually late April, early May) | All Type II boards of education (elected boards) shall organize annually on any day of the first or second week following the Annual School election. |

way to revise the provincial school calendar so that it runs from September to September to coincide with the school and contractual year. This would probably be a step in the right direction, and might alleviate some of the problems associated with developing a budget. Coordination of calendars, at all levels of government would be a step in the right direction.

The problem is compounded since school districts usually begin budget formulation well before the start of the fiscal year. This time warp can vary anywhere from 7 to 18 months. In many instances, school entities may not receive the anticipated amount of state or provincial aid until they are well into the budget planning cycle. Many times, these figures are subject to change. For school administrators, this is a nightmare. Imagine trying to explain the budget document to your local community without knowing the tax or mill rates because you lack the necessary information. Such circumstances certainly do not bode well for local public relations or help in persuading the public to cast a "yes" vote on behalf of the budget in states that require such a procedure.

It is true that school entities may develop an expenditure budget since they should have a good grasp of the costs they will be incurring during the ensuing year. Most school business administrators currently operate under these limits. It seems to be the most prudent and expedient way to function, although not the most efficient.

It was stated earlier that planning was an essential component in budget development. Like any entity, school districts need to develop short-, intermediate- and long-range budgetary goals that conform to their mission statements.

A long range plan serves as an internal document, one that is flexible and an indicator of future needs.

The long range planning process as described above can be labeled as strategic planning. This type of planning usually is visionary, addresses a district's "wish list," and takes account of the next five years.

Short-term planning, usually no more than one year in duration, is considered to be operational. While a strategic plan focuses on change or growth, an operational plan deals with what is already in place. An operational plan deals with small components, (schools, departments, classrooms) and is driven by the budget. If it is not included in the plan, it will not be done.[16]

A third type of planning can be labeled as managerial. This type of planning usually involves identifying a problem, analyzing the cause and developing a solution. Managerial and strategic plans are similar, in that both require the identification of a problem and the development of solutions to address the issues. The differences between the two processes are abstract; and that is why one organization may consider its planning managerial and another as strategic.[17]

As planning styles differ, so do budgets. Typically, budgets can be categorized under the following headings, incremental, planning and program, site-based, and zero-based. A brief description of each type of budget follows.

### Incremental

Most school budgets in the United States and Canada are developed using this approach. Simply stated, the previous years' figures remain rather constant. This is due in part to political and parental pressures, fixed costs, mandates and the like. The administration anticipates expenditures and calculates anticipated revenues (if available), and then determines each line item increase. This could be expressed either as a flat dollar amount or as a percentage over the previous year.

### Planning and Program Budget Systems

This type of budgeting is conducted through, a centralized system, with goals being established at the top then filtering downward. A PPBS approach examines all programs periodically, to assess their usefulness.

Budgeting decisions are based upon the assessments, depending on the relationship of assessments to centralized planning goals. Programs might be maintained in their entirety, modified, amended or eliminated altogether. Resources are allocated accordingly.

**Site-based Budgeting**

This system is highly decentralized. A site-based system allocates funds at the school level and allows building principals, faculty, staff and parents to decide how and where these resources are to be used. Site-based budgeting has met with some resistance because it requires an inordinate commitment of time and relinquishes power and control from the central office. To some people, power and control are usually synonymous with leadership, and relinquishing control is easier said than done.

**Zero-based Budgeting**

This is also a centralized budgeting concept. However, zero-based budgeting differs from PPBS in that it builds from the bottom upwards. Budget requests are evaluated at each level, ranked in priority order and then submitted to the next level for review. Zero-based budgeting builds from the ground up and assumes very little regarding existing obligations and programs. This type of system attempts to level the playing field by precluding incremental increases. It forces each entity to affirm contributions to the basic organizational mission. In practice, zero-based budgeting is never truly achieved due to mandated programs and contractual obligations.[18]

## Controlling The Budget

Some states and provinces attempt to control local budgets by capping the amount that local school districts can increase spending over the previous year. For example, the state of New Jersey allowed districts to increase spending approximately 4.2 percent in fiscal year 1997/98. Interestingly enough, most districts in New Jersey budgeted below cap, and the average increase was approximately 2.8 percent. Some districts, however, requested budget cap waivers, meaning they requested a greater increase than originally allotted by the state department of education. Such instances were rare, approximately seven percent statewide.

Although most states and provinces do not follow the New Jersey model, they have developed a system of built-in caps. As previously mentioned, budgets need to be balanced; therefore, a district will not spend more than it receives in aid. Budgets are capped at the level of expenditures based upon revenue — including state or provincial support. A reduction of support causes a proportionate decrease in expenditures.

Another way of controlling budgets is by requiring the local populace to vote on the proposed local tax levy or mill rate. Nowadays, it is not difficult to assume the outcome of these elections. Since this is the only budget that is normally voted upon and since we are in a decade of tax revolt, election outcomes should not be surprising. A two-year sample from New Jersey shows that approximately 32 percent in FY 1996/97 and approximately 22 percent in FY 1997/98 were defeated.

The exhibit that follows gives the reader a breakdown of those states that mandate a vote on the local tax or millage levy needed to be raised to support the local educational program.

## Budgeting Conclusion

Like a household budget, a school district budget must be balanced and have an adequate cash flow to meet all obligations, with some funds remaining for unanticipated contingencies. If expenditures exceed revenues, either on a monthly or a year-end basis, the district will face a major problem. Make sure you are always aware of your available funds, cash flow, investments and obligations,

# Exhibit 8

## School Elections

State voting requirements on millage increases or local tax levy.

**States that require a vote:**
Alabama, Alaska, Arkansas, Colorado, Connecticut, Delaware, Iowa, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Montana, New Hampshire, New Jersey, Ohio, Oklahoma, Oregon, Vermont, Washington.

**States that do not require a vote:**
California, District of Columbia, Florida, Georgia, Hawaii, Indiana, Kansas, Kentucky, Maryland, Missouri, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia, Wyoming.

**Special considerations:**

| | |
|---|---|
| Arizona | Does not require a vote, district has right to ask for an "override." Good for 2-5 years. |
| Idaho | Does not require vote, supplemental levies in excess of (.004 of market value). Simple majority required. Usually good for two years. |
| Illinois | Requires a vote on a levy, does not require a vote for millage increases. |
| New York | Requires a voted, except small cities under 125,000 population are not required to vote. |
| Wisconsin | Common school district requires a vote, unified school district does not. |

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and never let ego cloud your judgment. Remember that the golden rule ("He who has the gold makes the rule") has no merit when dealing with the public trust.

## Financial Accounting and Reporting

Budgeting is one of the most important responsibilities of the business administrator, but so is accounting and financial reporting. Accountability is the buzzword of the 1990s, and it relates to all segments of the private and public sectors. Shareholders expect and demand accountability from their president or CEO. In the public sector, parents, taxpayers, politicians and even local departments of education have become more vocal on how moneys are spent, invested and tracked. As the business administrator, it is essential that you are always cognizant of your fiduciary responsibilities. This includes maintaining a balanced budget, making transfers when appropriate, and investing as deemed necessary (this issue will be discussed in a subsequent chapter). All types of transactions should be reported to the board of education and general public at the regular monthly meeting.

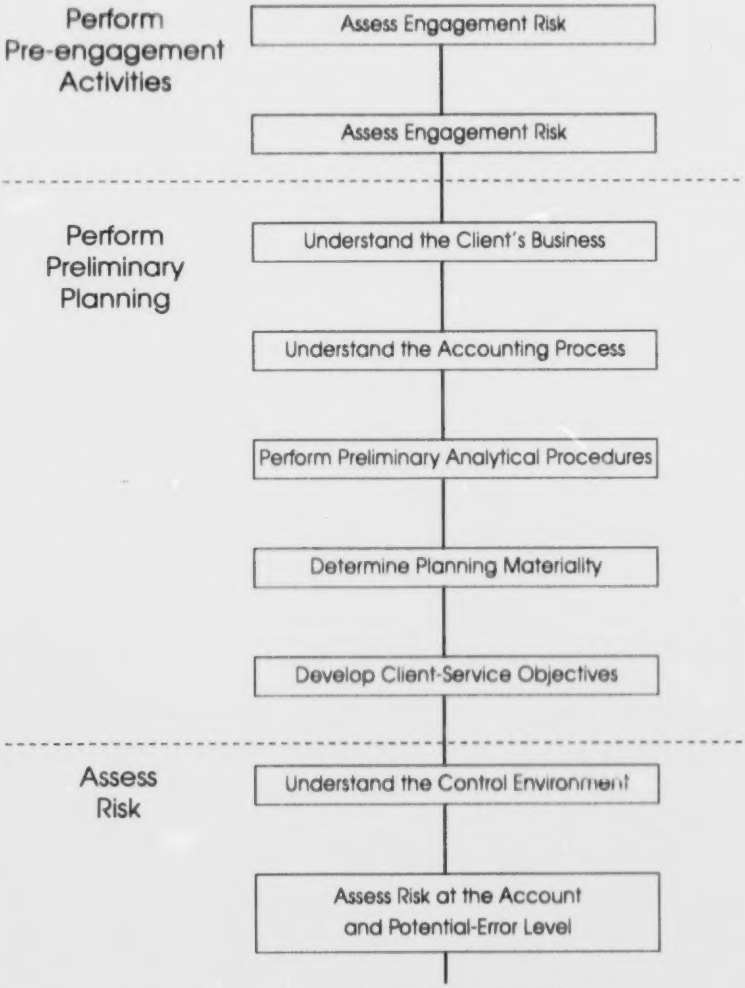
Generally, there are two types of audits, internal and external. The law in most states and provinces requires that an external, independent audit be completed at the end of the fiscal year and submitted to the board of education or board of trustees.

An internal audit is generally at the discretion of the local school district. Most districts do not conduct internal audits since they do not have the fiscal resources or personnel to carry out this function. Some larger districts may employ an internal accountant or auditor to carry out these duties. These districts enjoy the luxury of a built-in system of checks and balances. Even with this luxury, an external audit is required and necessary.

The purpose of the external audit is threefold. It should provide a degree of assurance regarding a district's finances and record keeping, increase the school

## Exhibit 9

## Overview of the Audit Process


Perform Pre-engagement Activities
Assess Engagement Risk
Assess Engagement Risk
Perform Preliminary Planning
Understand the Client's Business
Understand the Accounting Process
Perform Preliminary Analytical Procedures
Determine Planning Materiality
Develop Client-Service Objectives
Assess Risk
Understand the Control Environment
Assess Risk at the Account and Potential-Error Level

*Continued on page 53*

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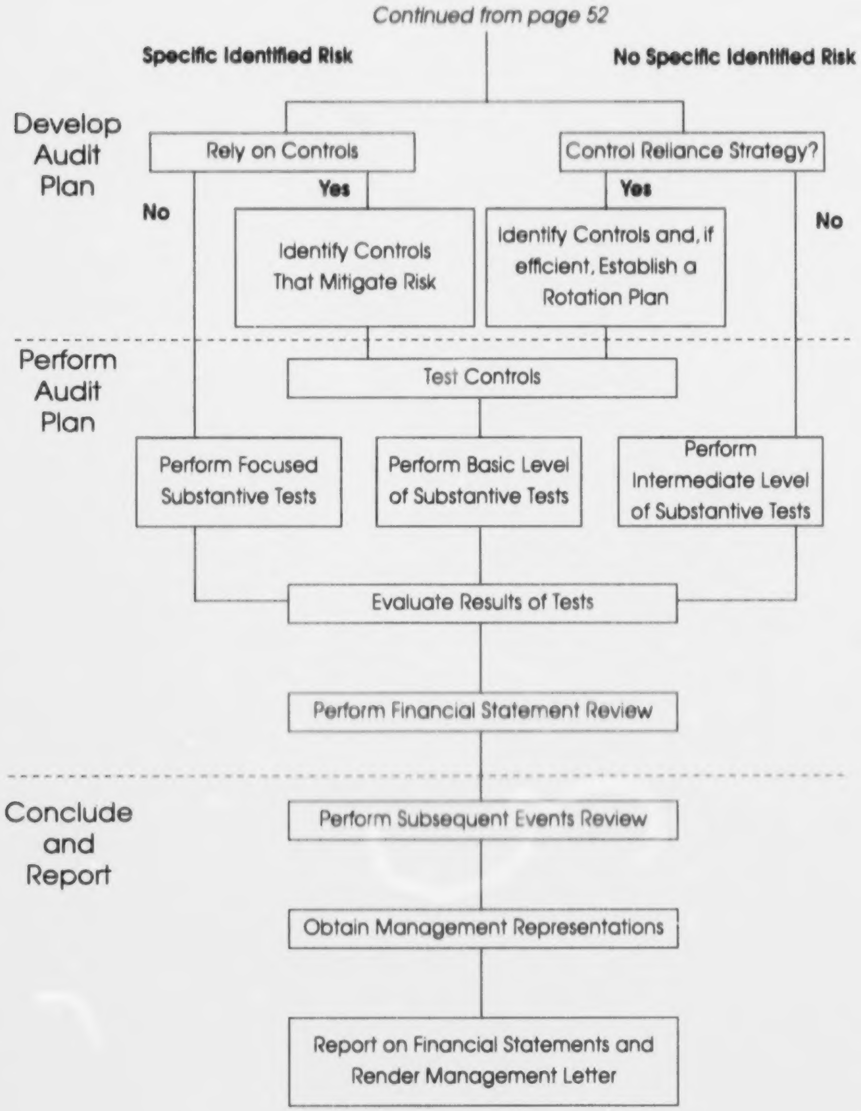
Continued from page 52
Specific Identified Risk
No Specific Identified Risk
Develop Audit Plan
Rely on Controls
Control Reliance Strategy?
No
Yes
Yes
No
Identify Controls That Mitigate Risk
Identify Controls and, if efficient, Establish a Rotation Plan
Perform Audit Plan
Test Controls
Perform Focused Substantive Tests
Perform Basic Level of Substantive Tests
Perform Intermediate Level of Substantive Tests
Evaluate Results of Tests
Perform Financial Statement Review
Conclude and Report
Perform Subsequent Events Review
Obtain Management Representations
Report on Financial Statements and Render Management Letter

board's confidence in financial statements and meet statutory requirements.[19]

Although public school accounting differs from the private sector, the characteristics and requirements are similar. Both types of enterprises deal with assets, liabilities, debits and credits. The objectives of the audit are also similar, as are audit concepts. Audits are necessary to determine if financial statements are free from material misstatements. They also must present the actual activities in conformity with accounting standards established for the type of entity and the circumstances involved.[20]

Public school audits are conducted according to Generally Accepted Accounting Principles (GAAP). These accounting procedures are used in conjunction with Generally Accepted Auditing Standards (GAAS); the standards used by public school accountants. In the Canadian provinces, the audit is conducted through accounting provisions established by the accounting profession.

In both the states and the provinces, the individual who performs the audit review must be properly certified or licensed. In the states, two of the acceptable designations are Certified Public Accountant (CPA) or Registered Municipal Accountant (RMA). In the Canadian provinces, the audit is conducted by a Chartered Accountant, who must also possess a Public Accounting License.

Regardless of what standards have been established, the methodology for conducting the audit is uniform. It is a problem-solving process that can be viewed in four steps:

1. Formulate or identify the problem so that evidence will permit a decision whether positive or negative.
2. Specify and perform such procedures as required to collect the necessary evidence.
3. Evaluate the competency and sufficiency of the evidence and determine the positive or negative aspect of the material.
4. Make the decision (audit judgment).[21]

The previous exhibit gives the reader a good summary of the audit process.

The auditor bears the responsibility of expressing an opinion on the condition of school district finances and financial record keeping. Recommendations are usually made to help improve the process; and the district usually receives a management letter that summarizes the recommendations. An exit level conference should also be held to review the scope of the audit and to allow questions from the administration, especially the school business administrator.

Audits are usually required to be completed and submitted by a certain date. In New Jersey, the audit must be completed by November 1. In Ontario, it must be submitted by the end of April. Submission dates vary from state to state and province to province; however, the establishment of a required timeframe is universal. Once the audit is submitted, it requires acceptance and approval by the appropriate governing body (namely, the board of education or school board) at which time it becomes a public document.

## Conclusion

Budgeting, financial accounting and accurate and timely reporting are probably the most important functions of school business administration. Financial reporting assumes a large degree of accountability on the part of school administrators, especially the business administrator. Management personnel have the responsibility for ensuring that all financial statements are current, in order, available, and in compliance with local, state or provincial policies.

Perhaps a verse from the Neil Diamond hit, "Forever in Blue Jeans," sums up the essence of this section best: *Money talks but it don't dance and it don't walk.*

It had better not!

## CHAPTER 6

# Insurance/Risk Management

Insurance plays an integral role in the area of business administration, is directly related to school finance, and is a major responsibility of the school business administrator. Although an individual need not be an expert, a general knowledge of this area is crucial.

Insurance, like the movie title, can be "Risky Business." A working relationship with a broker is essential as is trust and respect. The broker is the one upon whom you depend to make suggestions and recommendations regarding types of coverage, limits of liability, exposure and cost containment. A broker or insurance consultant is as crucial to your success as your school board attorney. A good broker can save the district thousands of dollars and make the business administrator look like a hero. Conversely, if you deal with someone who does not know the business, you could be heading for trouble.

Insurance, like any other profession, has its jargon or vernacular. Some of the common terms in the industry are:

1. **Athletic Liability** — insurance protection for students participating in athletic events. This type of coverage is not usually found in standard liability policies.
2. **Auto and Vehicular Coverage** — Refers to insur-

ance on any vehicles owned by the board of education. This could include driver education vehicles, grounds keeping machinery, buses and the like. This is usually included in the districts' standard multi-peril policy and should contain uninsured motorist protection.

3. **Errors and Omissions** — Protects boards of education and their employees against claims from a third party for an error or oversight by the employing agency.
4. **Fidelity Bond** — Protects an employer from theft of any funds or property.
5. **Multi-Peril Insurance** — A single policy that covers a variety of events such as fire, theft and other potential catastrophes.
6. **Package Policy** — A single policy that covers a variety of potential exposures.
7. **Products Liability** — Covers bodily injury and/or property damage arising out of the use of a specific product.
8. **Professional Liability** — Coverage for bodily injury or property damage arising from the actions of an insured professional.
9. **Property Insurance** — Covers physical losses, both direct and indirect, to a variety of types of property.
10. **Replacement Costs** — A policy that covers damaged, lost or stolen property from the first dollar.
11. **Reserves** — Moneys set aside to cover losses as they come due.
12. **Risk Management** — Procedures that can be instituted to reduce costs and minimize exposure.
13. **Self Insurance** — Insurance established by an entity that chooses not to buy insurance from an outside source. Generally, the term self-insurance is a misnomer since the entity usually buys additional layers of insurance protection, such as excess coverage.

14. **Umbrella Coverage** — A means of providing excess insurance to cover liabilities that may occur in claims involving auto insurance, employers' insurance or a general liability policy.

15. **Workers' Compensation** — Mandatory coverage providing for payment of medical expenses and a portion of wages for work-related injuries or illnesses.[22]

Now that you are familiar with insurance terminology, you need to turn your attention to the following questions. What components comprise an efficient and effective district insurance program? How does one determine coverage and assure that the district has adequate protection? One way is to develop a good risk management program, a strategy developed to reduce costs by minimizing or eliminating potential exposures.

What follows is a summary of the components included in a good risk management program. Three immediate steps are necessary when beginning a risk management program. They are: (1) develop a board policy, (2) select a program coordinator or director, and (3) identify the fundamentals of a risk management program.

Developing a policy is imperative, and the policy should:

1. Commit the school district to managing its risks.
2. Emphasize the importance of risk management.
3. Express the support of the board and top level management, and strengthen the authority of the coordinator.
4. Provide controls for loss exposure by establishing appropriate guidelines.[23]

After a policy has been established and adopted by the board of education, the district should move to procure a risk manager. This individual should have:

1. A good overview of the entire risk parameters.

2. A basic understanding of the insurance industry.
3. A knowledge of the budget process.
4. An understanding of current codes and statutes.
5. A knowledge of legal contracts.
6. Some knowledge of building design.[24]

This role carries a great deal of responsibility, and reinforces the concept that such an individual not be an employee of the district. The exception would be if he or she solely handled the risk manager's position. Both large and small districts could benefit from someone with this kind of expertise. Unfortunately, only a small number of districts throughout the United States and Canada hire someone for this specific position. The state of New Jersey is a prime example: only 3 out of approximately 587 operating districts retain someone as a risk manager. This seems to be the norm throughout North America.

Although a variety of circumstances contribute to this deficiency, money is the major concern. A good risk manager probably commands a salary in the area of $50,000, and districts may consider this pricey. However, as stated earlier, large districts should be able to sustain savings equal to or more than the anticipated expenditures associated with the position. Smaller districts, with limited financial resources, should consider sharing an individual.

Another alternative may be for a group of school boards to use an entity, encompassing a large area, to handle all the responsibilities of providing risk management services for participating boards. Examples of such agencies are the BOCES in New York, Educational Service Commissions (ESCs) in New Jersey and Intermediate Units (IUs) in Pennsylvania.

If none of the aforementioned alternatives is feasible, the school board could consider using outside resources on an "as needed" basis.

Potential resources are (1) the district insurance agent or broker, (2) consultants, (3) established risk management pools and (4) other risk managers.[25] As stated earlier, risk managers are a rare breed; therefore, the latter option may not be viable.

After identifying a risk manager or risk management service, the district should progress to the last step of the process: identify the components of a good risk management program. These components are:

1. Identification and measurement- It is impossible to manage risks if they are unknown. It is also important to establish risks in all disciplines and settings, not merely potential physical risks.
2. Risk reduction or elimination- This is rather self explanatory. It should be clear that it is impossible to eliminate all risks.
3. Transfer of risk- This can be achieved by requiring all contractors to assume the liability for all their operations. Another example would be to indemnify the school district by placing a "hold harmless" provision in an agreement. This could prove rather risky since it is questionable if the courts would recognize these types of arrangements as being valid to prevent a party from suing if an accident or loss occurred.
4. Assumption of remaining risks- This requires an analysis of the frequency of occurrences versus cost. If the frequency is high and the severity is low, it would probably make sense to assume the risk and save dollars rather than insuring the risk.[26]

Once these components are in place, the program is ready to be implemented.

The remainder of this section will focus on two other aspects of risk management: coverage and financing.

In most cases, there are two types of mandatory coverage. The first is workers' compensation and the second is the bonding requirement for those who have a fiduciary responsibility within the district. Examples of the latter include the business administrator, treasurer and the like. Other than mandated coverage, a school district should also protect itself against loss with the following types of policies.

1. Auto Insurance
2. Casualty Insurance (Liability)
3. Health Insurance, if applicable
4. Property Insurance

These forms of insurance were defined earlier in the chapter, but the definitions were very general in nature so a word of caution is necessary. These policies should contain a variety of clauses and provisions that give the school district the maximum amount of protection.

A business administrator should have some familiarity with the general clauses contained in all insurance policies. An easy way to remember these provisions are to use the memory tool association and think of the term "dice." All policies contain:

1. Declaration page — which outlines the terms and provisions of the policy..
2. Insuring agreement- which clarifies the responsibility of the insurer.
3. Conditions- which specify the responsibilities of the insured entity and the requirements for filing a claim.
4. Exclusions- which are items or conditions not covered under the policy.

Know the "dice" provisions of all your policies.

## Purchasing Insurance

One of the first decisions to make is the selection of an insurance agent or broker to assist the district in evaluating, selecting and pricing insurance coverage.

Most public entities agree with this assessment and appoint an agent or broker of record to assist with all insurance concerns. Once an agent or broker has been selected, the current insurance program can be evaluated. If it is determined that changes need to be made, the business administrator can continue to the next step of the process. At this point, perhaps a word of caution is necessary.

Insurance policies should not be changed simply for the sake of change. Change should be considered under one or all of the following: (1) costs become excessive (2) dissatisfaction arises with the present carrier and/or (3) cancellation or non-renewal is announced by the present carrier.

If the majority of the aforementioned factors are not present, it would probably be unwise to make changes. Most people in the business world have long memories; therefore, a change that may produce minimal short-term savings could prove fatal in the long term. This was very evident in the "soft marketplace" that occurred in the mid-1980s, when everyone was hustling for business. This was the last soft market to date within the insurance industry. Some administrators thought they were doing the right thing by making changes to save a few dollars. When the market place turned "hard" and no one was writing policies, these administrators were in for a rude awakening.

If you decide to make a change, be sure an adequate amount of time exists to achieve the objective. Optimally, you should begin the process at least a year, and definitely more than six months, before the anniversary date.

The next step involves the development of specifications. These should be disseminated to every underwriter so that all parties are bidding or quoting on the same coverage. Specifications should include: (1) description of coverage being bid, (2) coverage and limits of liability for each line of insurance, (3) details of coverage extensions and policy endorsements, (4) loss history for all lines being bid, (5) description of your jurisdiction's operations including management policies, loss control and safety efforts, (6) annual budget and (7) description of all contractual agreements that may effect the lines of insurance being bid.[27]

The exhibit that follows is a good generic insurance specification that can be used universally with minimal modification.

When researching insurance carriers, you should also determine if the company is an admitted, non-admitted or "foreign" carrier. Admitted carriers are domestic companies licensed to conduct business by the department of insurance within a particular state. Although there are reputable non-admitted carriers, most state commissioners of insurance will only assist in collecting funds from a domestic company in the case of financial loss or default.

Always check with the local department of insurance to ascertain the rating of the various carriers, and to learn if any complaints have been lodged against the company. Insurance companies should have a rating of A or better to be considered. Once these steps have been completed, contracts can be awarded.

It is important to know the difference between an agent and a broker. An agent represents an insurance company or a group of companies while a broker generally represents the insurance industry. Although both can place insurance with a company, the agent has a greater amount of authority and power to bind the coverage. The broker may be able to provide a greater amount of flexibility in ascertaining coverage for the district.

Regardless of which direction the school board decides to proceed, any agent or broker should possess the following qualifications.

1. Ability
2. Availability
3. Experience

## Exhibit 10

## General Insurance Specifications for Public School Districts

The following criteria shall be used to award General Insurance Coverage for the ________________Board of Education or School District.

- Coverage is to be effective at 12:01 AM on ______________________.
- Insurers must have a "Bests" rating of no less than A or be an approved pool under the jurisdiction of the ________________Department of Insurance.
- Insurer should maintain a claims service operation within the State or Province of _________ sufficient to respond to the needs of the school district.
- Agent or Broker must have an adequate professional staff to provide service and advice to the school district. A reference list of Public School District Clients should be provided with the proposal.
- Insurers will be required to provide clear and concise loss runs on a quarterly basis.
- Insurer will be required to make a physical inspection of the property and be able to make recommendations to improve conditions both physical and procedural.
- Insurer shall provide assistance in formulating the adoption of a formal safety policy and committee and provide continuing assistance in the management of the programs.
- Insurer shall be capable of providing continuing "loss control" seminars either on an individual or group basis.
- Knowledge of Occurrence endorsement shall be included.
- Notice to Company Compensation Claim endorsement shall be included.
- Unintentional Errors and Omissions endorsement shall be included.
- All policies shall contain a minimum 45-day Notice of Cancellation Clause.
- Any exception to these specifications must be so stated.
- The Board of Education at its sole discretion may choose to award any or all of its insurance to broker(s) or may choose to deal directly with the insurer.

Source: New Jersey School Insurance Group, 1990

4. Reputation
5. Understanding of risk management
6. A willingness to represent your interests[28]

Remember, a good insurance representative can be an invaluable resource to you and the school district. They should be able to provide a variety of services:

1. Claims processing
2. Contract reviews
3. Data collection
4. Developing educational programs
5. Inspection of facilities
6. Loss prevention services
7. Policy review
8. Safety advice[29]

An insurance professional can be an important partner in making the insurance program an effective, efficient, economical and viable operation. Communication with the representative is vital.

## Conclusion

This chapter only scratches the surface regarding insurance. Many other types of coverage are available and not listed. It should be noted that a district or school board needs certain mandatory coverage and the rest is optional. The business administrator, as the person usually responsible for ensuring that the board of education has the required insurance protection, typically makes recommendations regarding the purchase, maintenance and updating of the district's policies.

It is extremely important that the business administrator have a basic comprehension of school-related insurance, including the requirements within his or her respective state or province. The business administrator also needs to develop an "arms-length relationship" with the district insurance representative, who should serve as a key resource in filling the district's needs while maintaining ample cost controls.

Dealing with insurance is an important fiduciary responsibility. Don't throw the dice, you may roll "snake eyes." Caveat Emptor!

## Chapter 7

# Banking and Investing

*Investing won't buy everything that's true,*
*If you don't invest you may lose —* ***Money***

This verse, with a different twist, is borrowed from the hit song " Money" (originally recorded by Barrett Strong, then redone by the Beatles) to point out the importance of investing. Everyone is concerned about shrinking resources and the need to maximize every dollar to the fullest extent, but investing also has its dangers.

Witness the events in 1994 and 1995 that wreaked havoc among the investment community and caused indigestion among the participants. First, there was the Barings Bank catastrophe with close to $1.5 billion in losses. Then we had the Orange County debacle that caused a market loss of slightly more than $2 billion. Then the New Era Foundation Ponzi Scheme that caused associations, foundations, religious organizations and private investors to lose close to $100 million.

The Common Fund, which handles investments for institutions of higher learning, earned $140 million less than anticipated because of some questionable investment practices.

What caused this to occur? Greed, the use of financial instruments that were highly suspect, and blind trust by the investment community. Greed has been, and always will be, a motivator, especially when big sums of money are involved. When investors are promised large returns on their money, it is hard to say no. This is especially true of entities that have huge sums to invest. If you recall, in the late 1970s and early 1980s, it was not difficult to earn investment income. Inflation was rampant and double digit percentage increases from relatively safe instruments such as Certificates of Deposit were easy to achieve. This is no longer the case. Therefore, when someone promises huge returns, people are more apt to listen.

Witness the fiasco that occurred in Orange County, California in 1994. Investing in risky derivatives caused the county to ultimately file for bankruptcy, the first governmental entity to do so since the Great Depression. This caused havoc among local governmental entities including school districts.

A derivative is an instrument whose price is "derived" not from the instrument itself but some other instrument. The investment strategy behind derivative products depends on the interest rate.[30] If interest rates remain stable or decline, derivative products usually flourish. At the beginning of 1994, the Orange County pooled fund had increased in market value from approximately $7 to $21 billion. When interest rates started to rise, the fund began to lose billions and finally crashed.

This is also what happened with moneys invested by institutions of higher education through the Common Fund. The fund developed guidelines to invest in conservative, risk-hedged investments; however, these guidelines were ignored. Instead, a trader from an affiliated investment firm placed the funds in highly speculative derivatives. This individual gambled and lost.

The participating colleges and universities still made money on their investments, only less than anticipated. Of course, $140 million is not small change and a loss of this anticipated revenue could have a negative impact on programs, personnel, and tuition costs.

Baring's Bank, a 232-year-old British institution, became defunct because a trader gambled on Asian futures. A future contract is an agreement between a buyer (seller) and an established futures exchange or its clearinghouse. The buyer (seller) agrees to take (make) delivery of a specific amount of a valued item such as a commodity, stock or bond at a specified price at a designated time. For some futures' contracts, settlement at expiration is in cash rather than actual delivery.[31] Playing the futures game is not for the faint of heart nor the uniformed or unsophisticated trader. Guess wrong and you can be burned. The flames engulfed and destroyed a financial landmark like Baring's almost instantaneously.

The next occurrence took place at Daiwa Bank Ltd. This involved a bond trader who amassed losses amounting to approximately $94 million between 1984 and 1987. To cover the losses, he continued to deal in questionable bond trading, and when these practices were finally uncovered in 1995, the losses had surpassed $1.1 billion. This sent tremors throughout the bank as well as the government of Japan. Ultimately, it caused the resignation of the bank's top five officers.

This prospective is not intended to discourage you from investing your idle funds. The purpose is to raise a red flag when it comes to dealing with public funds. Everyone should be cognizant of the pitfalls that exist and learn from the mistakes of others. A conservative, systematic approach to investing is essential — especially when public entities have been recognized as a viable and potentially large book of business by banks, brokerage firms and other types of institutional investors. Therefore, it is imperative that the business administrator possess a comprehensive understanding of state or provincial laws relating to the investment of public funds. Additional requirements involve record keeping, tracking investments, evaluating performance at set intervals and recommending or implementing changes as necessary. In most cases, the

# Exhibit 11

## Investing Temporarily Idle Funds

The Board considers an investment program a critical ingredient of sound fiscal management. The Board authorizes an investment program for the purpose of securing a maximum yield of interest revenues while maintaining safety of principal to supplement other revenues for the support of the district's education program.

The investment program will be administered in a way that will ensure:

1. The continuous process of temporary investing of all funds balances and moneys available for investment purposes.
2. The maintenance (revised following each cash transaction) of a yearly cash flow chart that will provide data to assist proper planning and decision making regarding amount, duration and type of investment.
3. The use of an open competition system of bids and/or quotes to obtain the maximum yield possible on all investments from both in-district and out-of-district financial institutions.
4. That all district investments will be in compliance with the law.

### Delegation of Authority

The Board of Education authorizes the School Business Administrator to manage all activities associated with the investment program in such manner as to accomplish the objectives of this policy. These responsibilities will also include annual review and assessment of the district's investment program and filing a report and recommendations annually with the Board. The School Business Administrator is further authorized to execute in the Board's name any and all documents relating to the investment program in a timely manner and to confer with reputable consultants regarding investment decisions when necessary. A monthly progress report of investments will be made to the Board of Education.

### TYPES OF INVESTMENTS

Under existing statutes, boards of education are limited as to the types of securities and the types of financial institutions they may invest in or with according to: (cite State or Provincial statutes)

Any investment of board funds must be consistent with those statutes.

### PLACEMENT OF FUNDS

The Business Administrator is authorized to invest idle funds in the following types of depositories (list all available options).

Legal reference: If applicable

Source: Bridgewater/Raritan School District, Bridgewater, New Jersey 1995 business administrator is not expected to be a sophisticated investor, rather he or she should be a liaison between the local board of education and the fund depository.

The business administrator also needs to look upon the school district investment program in a different light than if he or she were investing personal funds. Whereas investors in the private sector seek the highest return or yield on their funds, investments in the public sector should be handled based on the SLY principle: (1)safety, (2)liquidity (the availability of funds), and (3)yield (the amount of interest earned on investments). This does not infer that yield should not be a consideration. All attempts should be made to maximize the return on an investment. What is being emphasized is that yield should not be the primary objective.

What steps are necessary to establish and implement an investment program?

The first step in the process should be the development of a board policy that gives the business administrator the needed framework, guidance and direction to proceed. A good investment policy should contain the following elements.

1. The objectives of the investment program.
2. The name of the individual responsible for directing the investment program.
3. Permissible investment instruments. More than likely, this has been established by state or provincial statute.
4. The depositories, brokerage firms or other agencies that the school board permits the business administrator to use.

The policy also could contain the maximum amounts to be invested, frequency of investments and reporting procedures. The establishment of local policy is crucial to any investment program since it should serve to minimize problems and maximize results while protecting the business administrator. Consider the adoption of an investment policy as a necessity.

The previous exhibit is a good generic sample policy, that could be used by almost any board of education.

Next, the individual identified for handling public funds should be bonded. State and provincial laws may already mandate this requirement and bonding fees are usually based upon the size of the school district budget. This type of coverage can be bought through your local insurance agent or broker or directly from an insurance company.

Once all of these procedures are in place, the district is ready to move ahead to the next step: developing a cash flow analysis. Current advances in technology allow most business administrators to develop their own simple and effective forecasting techniques.

Cash flow analysis means knowing revenue sources, monthly expenditures, the amount of cash on hand and any idle funds that may be available for both long- and short-term investing. The major sources of revenue for most school entities are state or provincial aid, federal aid, taxes and tuition.

Similarly, many expenditures are recurring and cyclical in nature. For example, payroll, which is the largest district expenditure, usually is disbursed on the fifteenth and last day of each month or on a bi-weekly basis. Once the payroll schedule is established, the business administrator knows the school district's obligations and can plan a short-term investment program accordingly.

History also plays an important role in forecasting. The business administrator will probably want to assess revenue and expenditure patterns over two or three years. This should help to determine accurate estimates of revenue streams and recurring expenditures. A good example might be tracking the history of the school district utility bills and developing an average or mean. Unless something unusual happens, your prognostication should be accurate.

Once this information is determined, you are ready to proceed to the next step, the actual investment of these funds.

New Jersey statutes permit local public entities, excluding school districts, to invest in bonds and other obligations of the United States Government or those guaranteed by it. They may also invest in their bonds or those of their local school district. School districts are covered under similar provisions in New Jersey Statutes 18:A 20-37.

It is important to examine each of these permitted investments and rank them in the areas of safety, liquidity and yield. Examples include obligations of the United States Government, which rank at the top of the safety chart. They are relatively risk free since it is hard to imagine the federal government defaulting on any of its obligations. The massive federal deficit has no effect on the safety of these instruments since the government simply issues new debt to fulfill its obligation to pay. This has an impact on the national debt but not on school district investments.

Most of these instruments are also liquid. Interest rates will vary depending on the term of your investment. Usually, long-term investments lock in higher initial yields. The downside is that no one can accurately predict how interest rates will fluctuate. This is another good reason to stagger your investment portfolio.

Other debts of the United States government are also relatively risk free. These include obligations under the Government National Mortgage Association, often referred to as "Ginnie Maes." Since payment of debt for these instruments is guaranteed by the federal government, they are permissible.

Finally, the law permits investments in the obligations of three federal agencies so long as the term of the investment does not exceed one year. These agencies are: the Federal Farm Credit Bank, the Federal Home Loan Bank and the Federal National Mortgage Association, more often referred to as "Fannie Maes."

It should be noted that some differences exist between permissive investments for municipalities and school districts within the state of New Jersey, but these differences are minimal, and the statutes governing municipalities and school districts could be considered as synonymous.

Permitted investments for local governments are: obligations issued by other governmental or state entities, the International Bank for Reconstruction and Development (the World Bank), The Inter- American Development Bank, and The Asian Development Bank.[32]

These last three permissive investments receive very little "play" in the investment community mainly because of their relative obscurity and lack of liquidity.

Repurchase Agreements (Repos) and Certificates of Deposit (CDs) are probably two of the most commonly used investment instruments within the public sector. Repos are usually short-term in nature (30 days or less), while Certificates of Deposit can range anywhere from 3 to 60 months in duration.

Repurchase Agreements became extremely popular in the 1970s and 1980s. However, the legality and safety of these instruments were questioned due to a series of defaults. Congress took action on the federal level that has resulted in a renewed confidence in Repurchase Agreements and they are again a viable investment instrument for local government entities. New Jersey statues are quite stringent when it comes to Repos and Certificates of Deposit. Purchase of Repos requires a local unit to possess the securities, either actively or passively, during the investment period. The permissiveness of a Repurchase Agreement depends upon the legality of securities purchased under the investment act.

Certificates of Deposit must be bought from banking institutions that fall under the Governmental Unit Deposit Protection Act (GUDPA). GUDPA requires that a bank accepting public funds is defined as a state or national bank, a savings bank, or an association that is domiciled within the state of New Jersey.[33]

The act also requires that local units deposit their funds in New Jersey public depositories. The reason for this requirement is quite simple; all these depositories comply with GUDPA. A local unit may buy a Certificate of Deposit with the secure feeling that the deposit is safe and protected through both federal insurance and the provisions established by GUDPA. Some may argue that these requirements seem onerous and obtrusive.

Just the opposite is true. It is always better to err on the side of "conservatism" when dealing with public funds.

New Jersey also permits local entities to participate in managed funds and, indirectly, in mutual funds. Investment in the former instrument is available through the New Jersey Cash Management Fund. This fund is managed by the Investment Division of the New Jersey Department of the Treasury. This fund permits greater flexibility in various investments such as banker's acceptances and commercial paper. The securities within the fund, although of high quality, are not insured. However, the fund has been in existence for approximately 18 years and has not experienced any serious problems.

Local entities are also permitted to invest in mutual funds that are registered with the federal government and are regulated by the Securities and Exchange Commission (SEC).

These funds must meet specific statutory requirements, must be open ended and fully guaranteed by the United States government.

These may include bonds (or other federal obligations) and repurchase agreements that are fully collateralized by the federal government. This collateral must be delivered or held by the mutual fund company. As with other investments within the state of New Jersey, these investments can only be bought or redeemed in New Jersey depositories.

Additional permitted investments found in other states include bank certificates of deposit (uninsured/uncollateralized), commercial paper, Eurodollar deposits, obligations of the Federal Home Loan Mortgage Corporation (Freddie Macs), investment grade commercial paper, and zero-based coupons. Most of these investments carry a higher degree of risk and less liquidity than those previously mentioned. The yield may also be higher, but at the risk of being redundant, safety must always be the primary concern.

Arizona's investment statutes list the following types of permitted investments:

1. Certificates of Deposit in eligible depositories.
2. Federally insured accounts within eligible state depositories.
3. Repurchase Agreements with a maximum maturity of 180 days.
4. Pooled investment funds as established by the state treasurer pursuant to the investment statutes.
5. Evidence of indebtedness of the United States Government, the state of Arizona and any of its political subdivisions including school districts.[34]

The statutes of Ontario permit the following:

1. Bonds, debentures or other evidences of indebtedness guaranteed by the Government of Canada, the Province of Ontario or any other province of Canada
2. Debenture, notes or guaranteed Certificates of Deposit with any trust or loan corporation registered under the Loan and Trust Corporations Act.
3. Promissory notes defined in the Municipal Affairs Act.

4. Term deposits in a credit union as defined in the Credit Unions and Caisses Populaires Act.[35]

Although other investment instruments may exist, the majority of permissible investments have been adequately identified.

Only one remaining piece of the investment program needs to be addressed — where to invest the district's operating funds? The most logical institution is a local depository. Banking is big business and many financial institutions have dramatically expanded their scope of services. Today, banks deal not only with checking and saving accounts but also with a wide variety of other investment opportunities and services.

Before selecting a depository, some research is necessary regarding the stability of the institution. Do not forget the collapse of many savings and loans in the late 1980s and early 1990s, and the rise in the United States of the Resolution Trust Corporation (RTC). Additionally, the flurry of recent bank acquisitions, consolidations and mergers has caused a great deal of confusion — a trend that is likely to continue

Since evaluating a depository may be a huge individual undertaking, one may wish to use the services provided by the following companies.

Bauers Financial Report
2655 Le Jeune Road, PH 1
P.O. Box 143520
Coral Gables, Florida 33114
800- 388- 6686

Duff and Phelps
55 East Monroe Street
Chicago, Illinois 60603
800-680- 4367

Dun and Bradstreet
190 South Orange Avenue
Livingston, New Jersey 07039
800- 234-3867

McCarthy, Crisanti and Maffei, Inc.
71 Broadway
New York, New York 10006
212-509- 5800

Sheshunoff and Company, Inc.
505 Barton Springs Road, Suite 1100
Austin, Texas 78704
800- 955-0567

Veribanc
P.O. Box 2963
Woburn, Massachusetts 01888
800-442- 2657 or 800-837-4226

The scope and cost of services will probably vary from firm to firm, but the information provided could be worth the expenditure.

In addition to providing checking and savings accounts and investment services, banks also provide many other services, including account reconciliations, computer services, check sorting and microfilming, direct deposit, "float" summaries, safekeeping of documents and wire transfers. Banks also vary in their rates of interest and in some cases how they compute interest: compounded daily, monthly or quarterly.

To assist the business administrator regarding scope of services and bank selection, a Request for Proposal should be developed. Sample exhibits for proposals are included on the following pages and can be tailored to any situation.

Besides banks, other organizations and entities also

**Exhibit 12**

## Request for Banking Services

_______________ **Board of Education**

The ____________ Board of Education is soliciting bids for banking services beginning on (Month, Day, Year).

**Background**
The Board of Education maintains ____ (indicate number of separate checking accounts). The budget for the school year is approximately $___________. Approximately ___% of this amount will be channeled through the ____________ Accounts. The remainder will flow through the ____________ Account. (Examples: General, Agency, Payroll)

The Board of Education's payroll is handled by ________________ (Name). All payroll information to the bank is provided by the aforementioned firm.

**Required Services**
The Board of Education requires the following services on their accounts. Any charges for these services are to be noted on the attached proposal form. Any variation from these requirements **MUST** be noted.

1. Monthly statement on the ___________ Accounts (List Names of Accounts Other Than Payroll) are due the day of the month.
2. Statement on the Payroll Account is due _____ days after the close of the account. Currently we "close" the Payroll Account on the _____ day of the month.
3. Reconciliation of the Payroll Account to include list of outstanding checks by number and amount, total dollar amount of checks outstanding and checks numerically sorted.
4. Interest on accounts.
5. Availability of Sweep Accounts and interest rates.
6. Wiring services.
7. Monthly account analysis to include bank earnings credit, itemized fees and interest earned to be credited to the district.
8. A bank office, at which the district can transact business, in a convenient location in the ____________ area.
9. Eligibility to act as depository for public funds under (list appropriate statute if applicable).
10. Contact person at the local Board of Education is _____________________ (Name, Title, Address, Phone).
11. All proposals must be received in the office of the School Business Administrator no later than _________.

**Bid Award**
The Board of Education will award a contract for banking services based on services provided by the bank and anticipated interest revenue. The Board retains the right to decide what services are in its best interest.

The Board will award a contract for banking services for years with an option to renew the contract for an additional period of ..

Source: Bridgewater Twp. Board of Education, 1996

## Exhibit 13

### Banking Proposal

____________ **Board of Education**

Name of Bank ____________________ Date __________

Submitted by ______________ Title ______________

Note: The fees/formulas/services indicated in this proposal are those that will be in effect for the duration of the contract. The rate of interest (Item 1) is for informational purposes only, but **MUST** be completed. The bidder certifies that any fees or formulas for affixing the rate of interest or providing services will remain in effect for the duration of the contract.

The bidder also certifies that should the bank be merged, sold or consolidated; that this agreement shall remain in full force and effect.

1. Current rate of interest on checking accounts as of __________ (Month, Day and Year).
2. Formula for fixing rate of interest: ______________________________
   ______________________________
3. Interest calculated on ______ Bank Statement Balance, ______ Collected Balances.
   Estimate of percent of collected funds, Other, explain: ______________
   ______________________________
   ______________________________
4. Minimum balance required in account to collect interest: ____________
5. Interest paid on minimum deposit: ____________
6. Penalties for falling below minimum balance: ____________
7. Maximum balance allowed in account: ____________
8. Monthly maintenance charge: ____________
9. Transaction fees:
   Account Analysis ____________
   Check Processing ____________
   Check Sorting ____________
   Computer Services ____________
   Deposits ____________
   Reconciliation of Payroll Account ____________
   Stop Payments ____________
   Wiring Fees IN OUT____________
   Other:______________________________
   (Attach separate page if necessary)

*Continued on page 81*

*Continued from page 80*

10. Time of day deposits and/or wired investments must be received for same day transactions.

11. Do you provide (List fees if any):
    ______ Direct deposit of payroll checks for Board of Education Employees at your bank at other banks
    ______ Free checking at your bank for Board of Education employees
    State any additional services provided by your bank. Please list any applicable conditions or charges.

12. If all major school district accounts were awarded to your bank, would you provide free checking account services to smaller accounts of the Board of Education such as school petty cash and student activity funds?
    ____ Yes ____ No
    Would these free accounts be available at branch locations?
    ____ Yes ____ No
    Maximum amount of accounts permitted ____________

13. Location of branches in the area:

14. Describe any additional proposals your bank might offer. Include Fees/Costs.

Source: Bridgewater Twp. Board of Education, 1996

## Exhibit 14

### Proposal Summary

**This should be First Page of Bid Submittal**

Name of Bank ______________________________________________
Address __________________________________________________
Person Completing Proposal ________________________________
Title ____________________ Phone Number ____________________
Date ____________________

The undersigned hereby proposes to furnish and deliver the items specified on the attached pages for which prices are hereby given, in strict accordance with these specifications, conditions and requirements. No plea of mistake in such accepted bid shall be available to the undersigned bidder.

Prices must be firm for the duration of a _____ (year of agreement) commencing _________ (Month, day and year) and ending on _________ (Month, day and year).

1. Rate of interest on checking accounts as of week of _________ (Month, day and year).
2. **Services provided by bank:**

   Monthly statement on the ____________ Accounts by the ____ day of the month.

   Statement on the Payroll Account ____ days after the close of the month.

   Reconciliation of the Payroll Account to include list of outstanding checks by number and amount, total amount of checks outstanding, checks sorted numerically.

   Interest on accounts.

   Wiring Services.

   Monthly account analysis to include bank earnings credit, itemized fees, and interest earned to be credited to the district.

   A bank office, at which the district can transact business, in a convenience location in the __________ area. Location of bank office: __________

| 3. Summary | Payroll Account | General & Agency Accounts |
|---|---|---|
| Fees | ____________ | ____________ |
| Interest Credited to District | ____________ | ____________ |

______________________________
Official Signature

Source: Bridgewater Twp. Board of Education, 1996

offer investment opportunities. These include states and provinces that operate their own investment fund or pool. This is usually operated by the department of treasury domiciled within the respective governmental unit. Private pools may also exist. These are usually a combination of two or more school districts or local units.

Various brokerage houses also are available to handle some investment programs, and some companies exist for the sole purpose of handling funds for local units, but are not considered brokerage firms or investment houses in the purest terms.

## Conclusion

A great deal of information was included in this chapter. The intent was not to cause any confusion, but to stress the importance of a well-structured and monitored investment program. The school business administrator is encouraged to start such a program if none exists. If one is already in place, perhaps the focus should be on how to improve the process.

From the school business perspective, the following three points are central to banking and investments. First, knowledge of local banking and investment laws is essential. Second, always attempt to bid all banking and investment services to ensure the most competitive pricing. Last, think of three words when dealing with public funds and the public trust, SAFETY, SAFETY, SAFETY. Do you know where your funds are tonight?

## Chapter 8

# Alternate Sources of Revenue

There is a phrase that is applicable to the plight faced by those employed in public education, and it goes something like this:

*Never have so few*
*Done so much*
*With so little.*
*Now they are asked*
*To do everything*
*With* (whatever word you choose to end this verse)

All educational leaders are being asked to produce more with less more frequently than ever before. People have produced less with less, less with more (not a very good idea), but not more with less — it's a misnomer.

The following ideas are potential creative solutions to the difficult funding problems faced by administrators.

**Advanced Treasury Notes** — The concept is connected to arbitrage and deals with lease purchase agreements. Lease purchases are a mechanism to fund construction projects without going to the public for approval.

Not all states and provinces have the requirement for public referendums, but if a referendum is required, then this process cannot be used. If the lease purchase procedure is permissible, advanced treasury notes may be able to provide an instant influx of income based upon the term of your lease purchase.

For illustrative purposes, consider a term of 10 years and annual payments permitted by arbitrage at $25,000. Using ATNs requires selling debt to a third party, who agrees to pay the entire amount due up front. In this example, that would mean $250,000 in a lump sum payment. The firm that used the securities would be required to return them to the school district in the last year to permit final payment on the debt obligation. Consulting with your school board attorney, accountant or auditor and your local department of education is essential. This may also require the use of specialists such as bonding or tax attorneys who are familiar with this procedure.

**Advertising** — As a way to raise funds, more and more school districts are advertising a variety of products, goods and services geared to attract students and parents as consumers.

Companies see this as an economical way of advertising, and a potentially large source of revenue. Vendors are always searching for a way to get their foot in the door, and are willing to offer financial incentives to participating school districts.

This growing phenomenon can instantly infuse some needed capital into a local district budget. However, endorsing a company or product is not always looked upon in the most favorable light, and the demands and expectations placed upon the district may be more than the district is willing to accept.

Make sure you research all aspects of any agreement and have the support of the community before proceeding. Sometimes the return on investment is not worth the effort.

**Arbitrage** — The definition from the American College Dictionary defines arbitrage as the "simultaneous purchase and sale of the same securities, commodities, or moneys in different markets to profit from unequal prices."

This reflects the operation of the old adage of buying low and selling high. Many school districts use arbitrage when dealing with a construction project. Fees and indebtedness are usually paid on a prescribed schedule. During interim cycles, available funds are invested to collect interest in the short term.

At other times, school districts may go out and borrow for the short term, usually 12 months or less, and reinvest the borrowed funds at a higher rate of interest. In the states, the IRS has some very stringent laws and penalties when it comes to abusing arbitrage. This product is not available in Canada.

**Business Services** — More and more school districts are using business services (sharing functions) in an attempt to minimize expenditures. Functions being shared or parceled out include data processing and payroll services. This process includes outsourcing to a private vendor or working with existing public consortiums such as the BOCES in New York, intermediate units in Pennsylvania, and educational service commissions in New Jersey. In some cases, individual districts may provide these and other services on a contractual basis.

The provider receives revenue while the participating school district reduces its expenditures. However, on a cautionary note, sharing business services has expanded well beyond its original scope. Districts can share school business administrators as easily as parceling out support services. This process continues to dilute the important function of oversight in the business office. If the trend continues, the profession could be in jeopardy.

**Community Services** — The school district can enhance its image and develop a moderate revenue stream by making schools available beyond the normal hours for community use. Using school vehicles to transport senior citizen groups, feeding the elderly, and developing adult school programs are examples of the types of community services in which schools can engage.

As with all of these ideas, school business officials must weigh the advantages with potential problems and decide if the funding mechanism is appropriate for their school districts.

**Cooperative Purchasing** — The main expenditures for school districts usually fall into three categories: equipment, general supplies and paper products; and transportation services. If managed properly, a consortium for cooperative purchasing should be successful in saving dollars for participating school districts. Many consortia are already in place on a district, county, provincial or statewide basis, so it is not necessary to reinvent the wheel.

The more supplies that are purchased, the less expensive the product. If supplies or materials are drop shipped to one location, money can also be saved on freight and shipping charges. However, there are pitfalls. You may be able to receive a comparable or even lesser price if you go out and solicit bids or quotations on your own. A prudent business administrator needs to check all available resources before making any commitments to participate.

Prudence also means looking into your local state or provincial laws relating to buying directly through a governmental agency. These provisions usually provide competitive prices on a host of items and pre-approve vendors as participants. Be sure that you are receiving the best prices and that the vendor presents some written evidence that designates approval in a state or provincial program — including a vendor ID number. Three words of caution before making any decisions: check, check, check.

**Data Processing** — Informed decisions need to be made on the feasibility of leasing equipment versus outright purchase. Technology changes rapidly, and today's newest advancement or enhancement could become obsolete by tomorrow. When this occurs, you could be stuck with a dinosaur; they look great in museums, but no one wants to buy one. Always consider the objectives, options and a timeframe for implementation before proceeding.

**Energy Management** — This can add a lot of pizzazz if used properly.

Utility companies and private concerns are always exploring ways to form a relationship with public entities to save dollars. We should not forget that utility companies do not want to build costly power plants. Not only is this process costly but, from a public relations standpoint, it leaves a lot to be desired. Most towns do not want a power station in their community.

This is why utility companies would prefer to expend funds and provide a service to their local school districts through grant allocations or outright donations. Many school districts have already taken advantage of these programs and have replaced outdated HVAC equipment and lighting.

Although many federal grants have dried up, opportunities are still available by dealing directly with a utility company that serves a given territory. Someone has to take the initiative, but the returns could be well worth the investment of time.

Private energy management firms offer programs that may allow districts to save energy costs without expending any funds. How is this possible? Private firms usually negotiate an agreement that gives them a certain percentage of the cost savings incurred by monitoring your HVAC and lighting systems. If you consummate a contract that states the company will receive 50 percent for its efforts and total savings of $100,000 is realized in the first year of the contract, the district saves $50,000 and the firm makes the same amount. If done correctly, it's a win-win situation.

One other factor should be mentioned. The utility industry in the United States has undergone some sweeping changes, and has become both deregulated and highly competitive for customers. Deregulation brings new problems such as the potential for increased costs, but also new opportunities. One of the newest opportunities is the unbundling of natural gas purchases. This procedure permits a school district or consortium of districts to buy natural gas from a vendor other than the utility company that normally handles the flow of natural gas. If feasible, a school district in the Eastern part of the country could enter into an agreement with a supplier in the Midwest to supply natural gas. Since this process is relatively new, it would be advantageous to solicit the assistance of an energy broker and/or attorney who is familiar with the rules of the game.

It is anticipated that school districts who buy in bulk can save approximately 7-10 percent on the cost of this form of energy. The electric industry is not far behind.

**Facilities** — A full chapter was devoted to this very topic, so there is no need to be redundant. Dollars can be saved on capital improvements and repairs by adopting and adhering to a realistic maintenance schedule.

Unfortunately, maintenance is usually deferred or even postponed entirely during budget crunches. This is exactly the kind of thinking that causes long term debt to increase and makes the problem almost insurmountable. As the business administrator, one of your responsibilities is the health, safety and welfare of the children within the school district. School board members and the public must be convinced that good facilities are at the core of a good educational program. Some may still wonder how this saves dollars. A line from a well-known television commercial sums it up best: "You can pay me now or you can pay me later."

**Foundations** — Throughout the United States and Canada there are hundreds of foundations that disburse funds to school districts for a variety of worthwhile projects. Foundations are usually required to disburse five percent of their endowment funds annually and this could add up to a substantial sum of money.

There are directories available that list foundations in respective states and provinces and even nationwide. These directories usually list all the pertinent information necessary to apply for a grant, including topical areas that have previously received funding. An investment in this type of directory could reap some serious dividends.

Some grants are also available through federal, state and provincial agencies. However, these grants are shrinking due to budgetary constraints within the bureaucratic hierarchy.

Another option would be for the school district to establish a foundation. This process would allow local school boards to establish policies, procedures and purposes of a local educational foundation usually without any outside interference.

By establishing a nonprofit entity (such as a 501c(3) OR 501c(6) organization), a local school can receive grant moneys, donations, gifts or in-kind contributions. This would alleviate the worry about the impact on the local school district budget. Furthermore, the school board and administration can establish programs such as curriculum research, facility studies, professional development activities, and technology upgrades without external or internal interference. Just keep in mind that applicable state and provincial laws dealing with the establishment of foundations need to be thoroughly researched. Be cautious and use the professionals and other resources that can make this work—accountants, attorneys, tax experts, the department of education, and contacts in other districts with experience in establishing educational foundations.

**Insurance** — Reviewed in depth in Chapter 6, dollars can be saved with a good insurance/risk management program.

**Investing** — It is not the intent to be repetitious on the whys and wherefores of a sound investment program. The particulars have already been outlined in a previous chapter.

What should be kept in mind is that a sound investment program is essential. Business administrators have a fiduciary responsibility for the investment of idle funds.

**Partnerships (Business/School)** — Partnerships between the business community and the local school district have been in existence for quite a while, but many have languished in relative obscurity. With the financial woes facing both the public and private sectors, it may be an opportune time to forge a relationship with the business world. "Adopt-a-school" programs, internships and school-to-work programs have been flourishing.

The benefits will vary from moderate to substantial depending on the company or companies involved. If a company has a presence within the community, the school district will probably reap greater rewards than if the company is geographically removed from the area. Regardless of conditions and circumstances, all participants could benefit from this type of arrangement. School districts may receive monetary donations, equipment, technical assistance, training, scholarships and employment opportunities for students. In return, the business community receives potential tax advantages, enhanced public relations, goodwill and prospective skilled employees to add to the work force.

**Privatization** — More and more school districts are adding this to the mix. Contracting out certain services can quickly reduce expenditures. Operations such as food service, maintenance and transportation have been targeted as the main areas in this category.

In the short term, savings may be realized by removing current employees from the payroll and wiping out benefit packages. Since budgets are labor intensive, the initial savings could be substantial. Additional savings may be realized through the sale of equipment and the closing of storage facilities such as bus garages. All of this can add up to big dollars.

However, implementation is easier said than done. Whenever an individual's livelihood is at stake, things can get nasty; in many instances, they have. Many school boards have used the threat of privatization as a sort of blackmail during collective bargaining sessions. This is not the way to win friends and influence people. All it does is create acrimony, hostility and a poor public relations image.

Please do not be lead to believe that these problems are universal. If privatization is implemented with some checks and balances (including assurances to employees regarding future employment opportunities), some of the fear generated by this issue can be ameliorated.

Privatization seems to be the elixir of the 90s. It is alleged to be the cure for everything that ails school districts. Politicians, private companies, John Q. Public and even some sectors of the educational community think it's the greatest thing since sliced bread. If you are contemplating privatization, proceed with all due diligence.

**Recycling** — Using this process may not substantially reduce expenditures for sanitation services, but it will help. Additionally, the public relations benefits can have a greater impact than the monetary considerations. We are all becoming increasingly concerned about the environment and the future.

To make this work properly, you will need to work collaboratively with the municipality and/or county government, as well as the student body, staff and administration of the school district.

**Refinancing** — In most cases, districts have financed projects over a period of time. Loans may have been secured at higher rates of interest than currently exist.

When interest rates decrease, it makes sense to refinance. This is no different from when a homeowner takes advantage of declining interest rates. Mathematically, cash flow increases when debt decreases. If the term of payment is also reduced, a greater sum may be saved.

**Regionalization/Consolidation** — The pros and cons of regionalization were discussed in Chapter I, and unless regionalization is mandated, it is unlikely to occur.

This is particularly true in the United States where local autonomy, otherwise referred to as home rule has been in existence since the creation of the public school system.

This is not the case in some of the Canadian provinces where the ax has fallen swiftly on a number of provincial school configurations. In 1996, the provinces of Alberta and Ontario were forced to regionalize school districts. Others may follow. It seems that the Canadian government feels that such reductions will save dollars by eliminating a layer of administrative bureaucracy. It will be interesting to see if the quality of education is improved and if moneys were actually saved.

If one wants to be creative and produce some instantaneous results, perhaps a reduction, consolidation or elimination of state or provincial departments or ministries of education would be in order. What about consolidating political sub-divisions? How about school boards? If these suggestions were to be acted upon, throughout the United States and Canada, think of the money that could be saved.

What is the role of the business administrator in this entire process? It should be as an observer, facilitator and prognosticator based upon sound information and data. Keep in mind the phrase from the hit song "The Gambler" by Kenny Rogers, "You better know when to hold 'em, know when to fold 'em."

**Special Education** — This topic was discussed at length in Chapter 2. Although the business administrator has little or no control in the placement of a special education child, there are some actions that could result in cost containment. These may include reducing transportation, tuition and possibly residential placement costs.

This is an extremely emotional issue and parents want the best placement for their child. However, some reasonableness and common sense should govern the process. Who is to say that a local placement (or even inclusion in a regular classroom setting) is not equal to a placement that may take the student hundreds or thousands of miles away from home? It is these remote placements that are costing districts up to six figures and having a severe impact on local budgets.

The role of the business administrator is to advise child study team members and other administrative personnel about the monetary ramifications of their recommendations. They must also be able to ensure that adequate funds are available to cover any placements as well as any unexpected occurrences.

Network with colleagues, they are an invaluable resource. Be careful and do not become the decision maker but rather serve in an advisory capacity.

**Student Residency** — To one degree or another, school districts have experienced non-resident students crossing jurisdictions and attending schools illegally within their boundaries. Suffice it to say, this could pose a problem by costing the school district valuable dollars.

If a district has 15 such students, that could constitute an entire class. This would require the need for a classroom teacher, adequate space, furniture, equipment, supplies and utility costs — just to name a few of the expenditures borne by the district. This could also cost the district revenue in the form of tuition that should be paid (if the school board has a policy on accepting out of district students for a fee). It may also mean the loss to the district of state or provincial aid depending on how these students are calculated in the funding formula.

If the district has an attendance officer, he or she should be the person who verifies student addresses and actual homes. If such a person does not exist, verification may require a joint administrative effort. The return on this investment in terms of time and energy may reap substantial dividends.

**Tuition (a.k.a. Recruiting)** — This is somewhat risky from a public relations standpoint since this procedure entails recruiting public school students from other districts, and charging tuition for the privilege. As noted in Chapter 3, the cost of education is certainly not inexpensive. Because of decreasing state aid and enrollment decreases, some school districts have advertised for pupils, and encouraged non-residents to attend on a tuition-paying basis.

Although not widespread, this procedure has enabled a minority of school districts to increase their revenue stream and maintain high quality educational programs and staff that might otherwise have been eliminated. If the district decides to go this route, proceed cautiously. While one district benefits, a neighboring district can experience a damaging financial impact. What goes around comes around.

## Conclusion

This list of ideas could go on and on. The important thing for school business administrators to remember is to be creative; potential funding sources are all around you.

## Chapter 9

# The School Business Administrator

*I went to an ASBO party*
*Everyone was there*
*They didn't recognize me*
*Sitting in my chair*
*If you want to be an SBA*
*I wish you a lot of luck*
*It gets tougher every day*
*I'd rather drive a truck*

A verse with a different twist from the smash hit "Garden Party" by the late, great Rick Nelson.

It illustrates a very crucial point about the school business administrator's place in the world of education, the universal lack of recognition for the position.

This is nothing new, but if you doubt the veracity of the statement, take this short quiz. When attending public school, my school business administrator was __________.

The results are in, and approximately 95 percent failed the test. Most individuals would probably be able to identify their superintendent, principals, and a good portion of teachers from kindergarten through grade 12.

It is not difficult to understand why these conditions exist. Students probably have little or no contact with the school business administrator. This phenomenon is not generic to the public sector. Most of you know either that Lee Iacocca was Chairperson of Chrysler Corporation, Ross Perot ran E.D.S., and Bill Gates runs Microsoft, but how many can name the chief financial officers of these companies?

A variety of reasons exist for the lack of recognition. Administrators, in general, have been under siege since the early 1980s, and school business administrators are now having their ox gored along with everybody else.

These attacks emanate from politicians, John Q. Public, departments of education and, in many cases, fellow administrators.

This bashing was not always in vogue. In Cleveland, in 1841, the first district-wide school administrator hired was the business administrator. The board of education recognized the importance of the position and felt that an individual with a good business background would be an asset to the district. Even though the scope, magnitude, resources and requirements for the position have dramatically changed, the importance has not diminished. The position of business administrator is more important now than ever before.

Consider the following information from the November 13, 1995, issue of *Fortune Magazine*. Although this article dealt with private, for-profit entities, many statements have relevance and meaning for the public sector. Here are some specific captions from Fortune that hit home:

"Forget the image of the CFOs as boring bean counters. Today's best CFOs shape strategy, earn millions, and can be worth billions to a company and its shareholders."[36]

Gary Wilson, co-chairman of Northwest Airlines, said he has never seen a great leader who has feared their finance chief. He further states that "not hiring an outside CFO is a sign of weaknesses."[37] These statements are extremely poignant when contrasted with the viewpoints that exist in the public sector. What are the major differences?

Egos are a big part of the problem. All executives have egos to one degree or another; that's human nature.

The board of education also contributes to the problem. Members of the local board of education sometimes tend to act as pseudo administrators. The board's role is that of a policy-making body acting on the recommendations of its administrators. The administration is supposed to implement policies as adopted by the board. When role reversal occurs, it tends to exacerbate relationships. Boards of education have also been known to attempt to place a wedge between the superintendent and business administrator.

If there is a problem with the superintendent, the board may turn to the business administrator to elicit information. When this happens, retaliation usually occurs, and the business administrator usually suffers the consequences.

Other problems arise when the superintendent also serves as the business administrator. This arrangement occurs in some smaller districts and is implemented for two reasons: to boost salary or reduce expenditures. This practice should not be condoned since it dilutes both accountability and the system of checks and balances.

It is impossible to serve two masters and the superintendent should devote full time and energy to being the educational leader within the community. Look again to the private sector. Does the chairperson, president or chief operating officer also serve as the chief financial officer? Everyone is seeking to reduce costs, especially in administration. However, a competent business administrator can more than pay for his or her services.

Another trend that has contributed to the identity crisis faced by business administrators is the fact that business administrators are often not recognized as educators. Nothing can be farther from the truth. A business administrator is more than just a bean counter. He or she plays an important role on the total management team.

The last point on this issue deals with an identity crisis. There is no singular title that deals with school business administration. Conversely, in the private sector, the titles of chief financial officer or chief operating officer are not only universal but recognized instantaneously by everyone in the business world. The proliferation of titles that exist to describe the school business administrator is astounding.

Titles such as assistant superintendent for business, board secretary, bookkeeper, business manager, comptroller, director of finance, school business administrator, and treasurer are just a few examples.

This is extremely confusing, and is the reason a universal title should exist — either chief (school) financial officer or chief (school) operating officer. I prefer the latter title since it best encompasses the vast amount of duties and responsibilities handled by a school business administrator.

Unfortunately, the problems that have plagued school business administrators for some time are now affecting the profession. Seasoned professionals are leaving rapidly. The California Association of School Business Officials conducted a survey in 1992 regarding the retirement issue. Almost 58 percent of the respondents said they were planning to retire in 10 years or less.[38] Although the survey was conducted in California, the results have national implications.

As with anything else, change creates both turmoil and opportunity. As new professionals are entering the field, the profession faces new challenges. The challenge is to ensure that these individuals are competently trained individuals and that organizations and colleagues assist in every way possible.

The remainder of this chapter addresses these issues and how they relate to certification, educational and training requirements, duties and responsibilities, compensation and the future of the profession.

## Personal Characteristics

Under this section, the personal attributes necessary to be successful in the profession of school business administration will be highlighted.

**Aptitude**- Not everyone who wants to enter the profession can be successful. This does not mean that you have to be an accountant, mathematician or even a full-fledged educator. You need to have a feel and flair for the position as well as a basic understanding of what it entails. Some skills are also necessary to meet the ever increasing demands placed on the school business administrator. Many of us might like to be astronauts but can't handle the force of gravity. Others may want to be brain surgeons but would faint upon approaching the operating room. Get the picture?

**Charisma**- Not everyone is Mr. or Ms. charming. The public image that all business administrators are bean counters who are dull and drab needs to be overcome. This is a highly visible, public position, and charisma goes a long way in overcoming many potential problems.

**Commitment**- This is intertwined with dedication. School business administration is not a nine-to-five job. The position calls for many long and arduous days and nights including weekends. If you are not prepared to make the necessary sacrifices, do not enter the field.

**Communication Skills** - Good oral and written skills are essential.

**Delegation**- You must be able to delegate work responsibilities and develop a comfort zone regarding your coworkers. Delegation is not always possible because of district size. If frustration sets in, count to 10 slowly or take a 20-minute power walk. The work will always be there.

**Energy-** A high degree of energy is necessary. Always have the bottle of vitamins available.

**Fortitude-** You need a large dose of this characteristic to deal with your board, superintendent, parents and John Q. Public.

**Humor-** This is the most important attribute on the list. If you cannot laugh with others or at yourself, then you are doomed.

**Innovation-** You will continually be asked to do more with less. Remember, most employers do not care about history. It's what you can do for me today. Be prepared!

**Motivation-** You must be able to work independently, be a self-starter and carry projects through to completion.

**Organization-** If you are not highly organized, your chances for success are greatly diminished.

**Resilience-** We all have good and bad days. In this profession you need the resiliency to get off the floor, dust yourself off, and say hit me with your best shot.

**Visibility-** In this profession, you need to be seen — not just heard.

## Certification and Educational Requirements

Educational requirements vary from state to state and province to province — from requiring a Master's Degree to no degree at all. Some entities permit one individual to handle a dual role (that is, superintendent and business administrator), while this is not permitted in other locales. Some educational subdivisions mandate certification while others have no such requirement. Do you know of any other professional staff member that does not have to be certified?

From classroom teacher to superintendent, strict certification and educational requirements are in place, but not for the school business administrator. The current system is completely inadequate.

## Exhibit 15

### Certification of School Business Officials By Province and State

| Province/State | School Business Cert. Req. | Degree Required | Exam Required | Dept. of Education |
|---|---|---|---|---|
| Alberta | No | - | - | 403-427-2045 |
| British Columbia | No | - | - | 604-731-8170 |
| Manitoba | No | - | - | 204-945-7943 |
| New Brunswick | No | - | - | 506-453-2785 |
| New Foundland | No | - | - | 709-729-3020 |
| Nova Scotia | No | - | - | 902-424-5605 |
| Ontario | Yes | BA/BS | Yes | 416-965-3483 |
| Prince Edward Island | No | - | - | 902-368-4650 |
| Quebec | No | - | - | 418-643-8610 |
| Saskatchewan | Yes | - | No | 306-787-1688 |
| Alabama | No | - | - | 205-242-9977 |
| Alaska | No | - | - | 907-465-2810 |
| Arizona | Yes | BA/BS | Yes | 602-255-4367 |
| Arkansas | No | - | - | 501-371-1474 |
| California | No | - | - | 916-445-7254 |
| Colorado | Yes | MA/MS | Yes | 303-866-6628 |
| Connecticut | Yes | BA/BS | No | 203-566-5201 |
| Delaware | Yes | BA/BS | Yes | 302-739-4686 |
| Dist.of Columbia | Yes | MA/MS | No | 202-724-4246 |
| Florida | No | - | - | 904-488-2317 |
| Georgia | No | - | - | 404-656-2406 |
| Hawaii | No | - | - | 808-586-3269 |
| Idaho | No | - | - | 208-334-3475 |
| Illinois | Yes | MA/MS | Yes | 217-782-2805 |
| Indiana | No | - | - | 327-232-9010 |
| Kansas | No | - | - | 913-296-2288 |
| Kentucky | No | - | - | 502-564-4606 |
| Louisiana | No | - | - | 504-342-3490 |
| Maine | No | - | - | 207-289-5944 |
| Maryland | No | - | - | 410-767-0100 |

| Province/State | School Business Cert. Req. | Degree Required | Exam Required | Dept. of Education |
|---|---|---|---|---|
| Massachusetts | Yes | BA/BS | No | 617-770-7517 |
| Michigan | Yes | BA/BS | No | 517-373-3310 |
| Minnesota | No | - | - | 612-296-2046 |
| Mississippi | Yes | - | - | 601-359-3483 |
| Missouri | No | - | - | 314-751-3486 |
| Montana | No | - | - | 406-444-3150 |
| Nebraska | No | - | - | 402-471-2496 |
| Nevada | No | - | - | 702-687-3100 |
| New Hampshire | Yes | BA/BS | No | 603-271-2407 |
| New Jersey | Yes | BA/BS | No | 609-292-2070 |
| New Mexico | No | - | - | 505-827-6587 |
| New York | Yes | MA/MS | No | 518-474-3901<br>518-474-6440 |
| North Carolina | Yes | BA/BS | No | 919-733-4125 |
| North Dakota | No | - | - | 701-224-2264 |
| Ohio | Yes | BA/BS | No | 614-466-3593 |
| Oklahoma | No | - | - | 405-521-3337 |
| Oregon | No | - | - | 503-378-3586 |
| Pennsylvania | No | - | - | 717-787-2967 |
| Rhode Island | No | - | - | 401-277-2675 |
| South Carolina | No | - | - | 803-734-8464 |
| South Dakota | Yes | BA/BS | No | 605-773-3553 |
| Tennessee | No | - | - | 615-741-1644 |
| Texas | No | - | - | 512-463-8976 |
| Utah | No | - | - | 801-538-7740 |
| Virginia | No | - | - | 804-225-2022 |
| Washington | No | - | No | 360-753-6738 |
| West Virginia | Yes | BA/BS | No | 304-558-2681 |
| Wisconsin | Yes | MA/MS | No | 608-266-1027 |
| Wyoming | No | - | - | 307-777-7291 |

Source of information: School Business Affairs, a Publication of ASBO International, Ronald E. Everett, Ph.D. and Lois Mastro, authors, September, 1994.

Exhibit 15 outlines certification and education requirements from across the United States and Canada. The information is incomplete because not everyone responded to the survey, especially the questions regarding degree requirements.

Because of the diversity of requirements and mobility of school business officials, this information should serve as a valuable reference source. Contact the appropriate state or provincial educational agency to obtain specific details.

The chart also stipulates the various educational requirements needed to be a school business administrator. Of the 61 states and provinces listed, it can be assumed that only 18 (or approximately 30 percent) have a degree requirement as part of their certification program.

This is woefully lacking when compared to requirements for the chief financial officer in other public entities and the private sector. Moreover, very little if anything has changed regarding educational requirements for school business administrators during the past decade.

At this juncture, it may be informative to highlight the educational programs within two states and one province. The first state is New Jersey where establishing certification was a long and arduous process. It began in the early 1960s, gained momentum in the mid-1980s and culminated in September of 1991. New Jersey requires a minimum of a Bachelor's Degree with 135 clock hours of instruction, a mentorship and a one-year residency. Before entering the field, the candidate must apply for a Certificate of Eligibility.

This allows a person to seek employment under a provisional certificate. Once employment is verified, the candidate has one year to complete the residency and instructional clock hour provisions for certification under the guidance of a state appointed mentor.

A grandfather provision permitted individuals employed as school business officials (even those with no degree) to become fully certified.

A minimum of five years experience on or before September 1, 1991, qualified one for the grandfather provision. New Jersey's certification requirements are among the most stringent of any state or province.

The state of Ohio also requires certification for the chief school financial officer, designated by the title of treasurer. Ohio recognizes two positions: treasurer and school business manager. The former handles the finances while the latter assumes other responsibilities associated with the title. To be licensed as a treasurer, an individual needs to hold either a Bachelor's or Associate's Degree in accounting, finance or public administration. The candidate must also present evidence of 300 hours of field experience in areas related to financial and reporting functions. The initial license issued for this position is four years in duration.

The school business manager's license is also for an initial period of four years and requires a minimum of a Bachelor's Degree. Three hundred hours of field experience are mandated in a broad variety of areas although it appears that certain exemptions or waivers can be granted concerning both positions.

The province of Saskatchewan requires certification by mandating that four courses be completed at the university level. These include a basic accounting course, one dealing with governance, one on business office procedures and the last dealing with provincial law. The certification program contains no mandatory degree requirements, and an individual with a degree may receive an exemption from these courses from the minister of education.

Other states have additional requirements (such as a competency exam, Master's Degree and renewable certification). However, the previous three entities were highlighted because of one unique feature: they all require the appointment of a school business administrator in every district. This is an accomplishment in and of itself.

The Association of School Business Officials International (ASBO) has also tried to unify the requirements for becoming a school business administrator. They attempted to achieve this goal by forging a partnership with various colleges and universities and the National Council for Accreditation of Teacher Education (NCATE).

This movement started in the late 1980s and the purpose was to develop a Model Preparation Program that would be accepted on a universal basis. The program was not to be linked to any state or provincial certification requirements and was voluntary in nature. Although some colleges and universities have opted to participate, the program has not been an overwhelming success. In 1995, ASBO decided to withdraw as a member of NCATE due to a lack of participating institutions and cost factors.

Upgrading the profession by raising educational requirements is a noble endeavor, but only one piece of the puzzle. What else needs to be done?

1. The profession needs greater recognition. This means educating the general public, other educators and government officials why this position is vital. This goal can be achieved by always conducting oneself in a highly professional manner and being knowledgeable about the profession. It is also essential to speak out on issues that impact education, and being involved in a variety of community and civic activities. Every state and provincial association needs to follow similar practices and "champion the cause" for school business administration.
2. All state and provincial associations must move forward to seek legislation or policy that mandates a school business administrator in every district. Until this occurs, we are all just spinning our wheels. This could be difficult, but then again, who said any-

thing in life is easy?

3. Reciprocity is an important goal. Currently, reciprocity among states and provinces is almost nonexistent. Since most school administrators are highly mobile, the lack of reciprocity is an impediment that needs to be removed.

   Laws vary from state to state and province to province, but the duties and responsibilities of the school business administrator remain universal. A provisional certificate could be required until someone familiarizes themselves with local rules and regulations. No one should be precluded from entering the profession, if they have already achieved certification. This limits the talent pool and closes the door to many highly qualified individuals.

4. Develop a model program that is realistic and can be completed without a great expenditure of time or dollars. This does not imply that someone should enter the profession without going through a course of study along with some prerequisites.

The existing provisions for the Model Preparation Program are unrealistic because they contain the requirement for a Master's Degree. Many states and provinces have no degree requirements, so it makes sense to start slowly. States and provinces contemplating changes should also include a grandfather clause and provide ample notification to all affected parties.

Do not misunderstand; minimum requirements are not the ultimate goal. Many school business administrators hold Doctoral Degrees, and they should be congratulated for this accomplishment. We should always encourage people to reach beyond minimums and move forward with more stringent requirements in the states and provinces that already require a Bachelors' Degree.

## Duties and Responsibilities

As with most administrative positions, the duties and responsibilities of school business administrators may vary, but most have universal application.

They include but are not limited to the following:

1. Accounting
2. Auditing
3. Budgeting
4. Facilities and Maintenance
5. Data Processing
6. Evaluating
7. Environmental Issues (Monitoring and Compliance)
8. Financial Reporting
9. Fixed Assets
10. Food Service
11. Insurance and Risk Management
12. Inventory Control
13. Investing
14. Legal Issues
15. Negotiations
16. Personnel
17. Public Relations
18. Purchasing
19. Record Keeping
20. Reporting
21. Supervising
22. Warehousing
23. Transportation
24. Other duties as assigned.

## Educational and Training Requirements

The task of providing an adequate training program in preparation for the aforementioned duties is quite a task but is not insurmountable. An individual looking to enter the field should have a minimum of a Bachelor's Degree in any discipline, although it would be more advantageous in business or education. The individual should be required to serve some type of residency and work with a mentor or tutor for at least one year.

What follows is from the ASBO International model, and deals with the content areas that should be incorporated in the training cycle:

I. The Educational Enterprise
II. Financial Resource Management
III. Human Resource Management
IV. Facility and Property Management
V. Information Management
VI. Management of Ancillary Services[39]

Some educators may also argue the merits of a standardized test as a prerequisite to entering the field. A few states have this requirement, however, no test for the profession has been nationally validated.

ASBO International also requires college or university attendance. The content areas under the Model Preparation Program should be flexible enough to be attained either at an institution of higher learning or through a combination of other programs. These could include clinics, seminars, conferences and approved state or provincial certification program, institutes, business partnerships and similar types of experiences.

The key word is flexibility, and the university route is not the only way to achieve certification or professional growth.

## Employment Opportunities

Most people in upper management positions are always keeping their eyes and ears open to improve their situation. Business administrators are no exception. That is why longevity within one district is becoming increasingly rare. On the other hand, those who want to enter the profession are also interested in what opportunities exist and how to find out about existing vacancies.

Opportunities always seem to exist within the profession of school business administration, but candidates are also plentiful. This type of climate creates a highly competitive job market based upon the law of supply and demand. Armed with this knowledge, how does one get a head start on the competition?

The first piece of advice is for you to seek employment in education as you would in the private sector. Besides the local papers, pay attention to the professional notices. There are various states and provincial associations for business officials as well as ASBO International that can provide valuable information and resources at nominal costs. Many of these organizations make available a variety of career vacancy notices both on a local and national level.

Network with local county units, or state and provincial educational agencies, which may also make this type of information available.

Make sure your resume looks professional and is up to date. It may pay to spend a few dollars to get the resume professionally done. Also make sure that it is not too lengthy and covers your employment and educational experiences. Include a cover letter, and be sure this correspondence is typed and personally signed. It never ceases to amaze me that someone would go to the trouble of getting a resume professionally done and then send a hand written cover letter.

The next step involves conducting research on your potential employer. All things being equal, a potential employer will be impressed if you are knowledgeable about the community and school district.

Some of this information (such as demographic data) can be found at a local library, uncovered by visiting the community, or gleaned by networking with family, friends or acquaintances.

Additional information also can be found in local newspapers, county offices of education and state or provincial departments of education.

Another suggestion that might prove useful is to conduct a mock interview with someone who is impartial. Videotaping the session could also prove advantageous. The following questions are a good indication of what to expect during an actual interview:

1. What are the duties and responsibilities of the school business administrator?
2. Which do you consider most important and why?
3. How do you perceive the role of the school business administrator in relation to the school board, superintendent, other professional and support staff and the community?
4. How would you describe your management style?
5. What qualities do you possess that would make you an effective business administrator?
6. How would you integrate support staff into the total operation of the business functions of a district? How would you evaluate the effectiveness of support personnel?
7. Briefly give an overview of your knowledge and expertise in the following areas:
    A. General school district business functions
    B. Facilities and maintenance
    C. Food service
    D. Technology
    E. Transportation
8. Give one example of a specific problem you faced in your career and how you resolved the issue?
9. Why do you feel you are the best candidate for this position?

There are many other questions that will be asked, but at least you have an inkling of what to expect.

## Compensation

What is somebody who handles such a wide variety of responsibilities worth?

It's hard to imagine what the compensation would be for someone with a comparable job description within the private sector. The salary would be minimally in the six-figure category and the total compensation would probably include bonuses, profit sharing, stock options and other perks.

In some instances, salaries may escalate into seven figures, and signing bonuses in the millions may be offered to attract, lure and maintain a highly proficient and visionary CFO or COO.

Skilled workers are receiving wages that may equate to over $35.00 hourly, and that figure may be at the low end of the spectrum. Have you recently had your car repaired or called in a plumber or an electrician?

None of these examples are completely applicable to the public sector where administrative salaries are always under scrutiny. However, everything is relative and it could be debated that salaries are, in fact competitive. It is probably safe to assume that even in the most rural and remote school districts, school business administrators are receiving salaries that are $30,000 or higher. In larger districts, salaries range from $40,000 to $100,000 or more.

The school business administrator should be the second highest compensated managerial position within the district. Unfortunately, more often than not, the school business administrator falls at the lower end of the spectrum when it comes to administrator salaries. In spite of the obstacles facing the profession, being a school business administrator is an admirable and exciting profession.

## Conclusion

After reading and absorbing this information, you may have some genuine concerns. Don't be discouraged, this is an honorable profession although problems will always exist. That's just the way it is within the public domain. However, look beyond the doubting Thomas mentality, continue to persevere and always act in a highly ethical and professional manner. By doing so, the profession is raised to the highest level.

A line from Michael Bolton's smash hit; "Time, Love and Tenderness" captures the obstacles the profession continues to face. "They will put you through the fire, they will put you to the test." It is how people respond to adversity that distinguishes greatness from mediocrity.

Finally, remember this quotation from my favorite philosopher, Rick Nelson, "You can't please everyone, so you've got to please yourself." Your 15 minutes of fame are just around the corner.

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# Glossary of Terms

As with any business, profession or trade, school business and, in particular, school finance utilizes terminology that is rather unique.

The acronyms, expressions, jargon and lingo that are utilized can often prove confusing to both educators and laymen alike.

In an effort to unravel this linguistic maze, I have developed the following list of terms and definitions that you will encounter throughout the text.

It is my hope that your understanding of school business will be enhanced by this glossary.

**Arbitrage** - The purchase or sale of the same or equivalent security in order to profit from price discrepancies.

**Assessed Valuation** – The basis upon which local property taxes are calculated. Assessed valuation is usually less than true market value.

**At Risk Students** - Children from a disadvantaged socioeconomic background who may be in need of special assistance both educationally and socially. Eligibility for aid is usually based upon family income.

**Bond Anticipation Notes (BANS)** - Revenue received by a local district through the sale of bonds.

**Budget Caps** - A percentage limitation on the overall growth of a local district budget.

**Capital Outlay** - Expenditures for the purchase of land, buildings and equipment.

**Categorical Aid** - Federal or state aid distributed based upon a specific category such as bilingual education, special education, etc...

**Circuit Breaker** - Tax relief provided by the state or province that limits the property tax burden usually based upon household income for a specific group or population.

**Confidential Employee** - An individual who is prohibited from belonging to any specific bargaining unit.

**Cops** - Certificates of participation. An instrument usually associated with a lease purchase agreement as a bond is associated with a debt service agreement.

**Current Expense** - The funds needed for the daily operation of a school district including items such as materials, salaries, supplies and textbooks.

**Debt Service Aid** - Aid provided to local districts for the repayment of bonds for capital projects.

**Equalized Property Valuation** - An estimated figure of the value of taxable property based upon market rather than assessed value. Figures are derived from actual sales during the previous year.

**Foundation Aid** - Aid to local school districts based upon the difference between the foundation budget and local fair share.

**Foundation Amount** - The aggregate of all revenue sources available to cover expenditures for educating one student. In some instances, costs will be differentiated by grade level or category based upon a graded weighting system. Usually, this is a pre-determined dollar amount that may fluctuate from state to state or province to province.

**Free Balance** - Unexpended funds, from the year-end audited budget commonly known as "surplus."

**Generally Accepted Accounting Principles (GAAP)** - Uniform standards adopted for financial accounting and reporting by school districts as established by the Government Accounting Standards Board (GASB).

**Grade Weights** - Factors applied to the basic foundation amount to account for grade differentials as well as adult and special education and county vocational school costs.

**Guaranteed Tax Base** - Permits local school districts to choose the tax rates for educating their students. State aid is based upon the amount raised via the guaranteed tax base and the amount the district can raise at that rate.

**Local Leeway** - State aid provided to a local district whose wealth falls below the guaranteed valuation.

**Local Levy Budget** - The amount of funds requested by a local board of education in excess of the amount permitted by the state.

**Municipal Overburden**- Excessive costs for municipal services,( police, fire, sanitation) that have an impact on the local property tax rate. Usually this occurs only in large urban areas.

**Parity** - Usually deals with the amount of spending necessary to achieve equity in those educational offerings that must be provided for all students, regardless of district resources.

**Rating** - Grading of bonds by a firm such as Standard and Poors or Moodys.

**Recapture** - The portion of a district's excess property taxes that are returned to the state and distributed to a district that falls below the statewide average.

**Revenue Anticipation Notes** - Notes that are funded by revenue-producing entities on a municipal, county, state or provincial basis. Examples could include various road, bridge and toll authorities.

**Required Local Effort** - Amount of taxes that must be raised by a local district to be applied toward its foundation budget.

**School Business Administrator** - The chief financial officer of a school district; often responsible for a multitude of other functional areas including, but not limited to food service, data processing, maintenance, purchasing and transportation.

**Special Needs District** - Districts in New Jersey that have been identified by the Department of Education as having deficiencies in the areas of educational achievement and finance.

**Tax Anticipation Notes(TANS)** - Revenue received by a district in advance with the main source of funding being future taxes.

**Thorough and Efficient** - The essential components of an educational program that should be available to all children regardless of birthright; as included in the New Jersey State Constitution.

# Epilogue

My fingers are getting numb and the last thing I need is Carpal Tunnel Syndrome.

Levity aside, my hope is that you enjoyed reading this book, and the information proved useful. Although the majority of material pertained to the states, many of the ideas, precepts and recommendations could be easily adopted to have universal application.

As stated in the preface, this text was written with a variety of audiences in mind. However, one would assume that the vast majority of readers were public sector business administrators or those who would like to enter the profession.

When you evaluate this book, judge its usefulness not only by the material it contains but how it differs from other texts dealing with school finance. I have always been disturbed by the boring, dry manner in which most financial texts are written. It was my intent to make this interesting, informative and enjoyable.

As my favorite sportscaster, Don Meredith might say, "Turn out the lights, this book is over."

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